Beneficial Corporation
1979 Annual Report

Spotlight on Management

Media representatives and others seeking general information about the company should contact Mr. Clifford W. Snyder at (201) 455-7116.

Security analysts, portfolio managers, and other investors seeking financial information about the company should contact Mr. Andrew C. Halvorsen at (201) 267-5500.

Copies of the company's 10-K report to SEC and the separate annual report of the BENICO Insurance Group are available upon request from Mr. Kenneth J. Kircher, Beneficial Corporation, P.O. Box 911, Wilmington, Delaware 19899.

Beneficial Corporation common stock trades on the New York Stock Exchange under the ticker symbol "BNL."

The Annual Meeting of the shareholders of Beneficial Corporation will be held on Wednesday, April 30, 1980 at 11 a.m. in the company's headquarters, Beneficial Building, 1300 Market Street, Wilmington, Delaware.

Cover Photograph:

From left to right—
Gordon L. Wadmond, Executive Vice President;
Robert P. Freeman, Senior Vice President—Personnel;
Mrs. Glenn E. Paton, Vice President and Assistant Secretary;
James H. Gilliam, Jr., Vice President—Legal

Beneficial Corporation
Highlights

(in millions) Years ended December 31	1979	1978	1977	% Increase (Decrease) 1979 over 1978	% Increase (Decrease) 1978 over 1977
Consolidated					
Net Income	$ 101.1	$ 98.3	$ 85.7	2.8%	14.7%
Earnings Per Common Share	4.24	4.19	3.64	1.2	15.1
Dividends Per Common Share	1.95	1.70	1.60	14.7	6.2
Finance Division					
Revenue	982.9	769.5	640.4	27.7	20.2
Net Income	99.6	101.5	86.4	(1.9)	17.5
Finance Receivables Less Unearned Finance Charges*	4,264.0	3,015.4	2,526.2	41.4	19.4
Number of Offices*	2,399	1,939	1,890	23.7	2.6
Number of Accounts*	3.7	3.0	2.5	23.3	20.0
Average Account Balance*	$ 1,154	$ 1,013	$ 1,031	13.9	(1.7)
Reserve for Credit Losses as % of Finance Receivables*	4.78%	4.90%	5.00%		
Savings and Loan Division					
Revenue	$ 154.4	$ 133.1	$ 115.9	16.0	14.8
Net Income	13.8	10.8	8.2	27.8	31.7
Equity of Beneficial in Net Income plus Purchase Accounting Adjustments	12.6	2.5	—	404.0	—
Merchandising Division					
Net Sales and Other Revenue	1,176.9	1,115.9	1,178.6	5.5	(5.3)
Net Income	3.5	4.3	7.8	(18.6)	(44.9)

*At end of year.

For Beneficial Corporation 1979 was a reasonably good year, but disappointing relative to early expectations. Net income rose to a record $101.1 million, a 2.8% increase over 1978. Earnings per share increased 1.2% to $4.24 from $4.19 in 1978. In June the quarterly common stock dividend was raised 5¢ to $0.50 per share, increasing the annual dividend rate to $2.00 per share from $1.80, and representing the fourth increase in the dividend in the past three years.

Receivable growth continued exceptionally strong, as a gain of $1.25 billion (41%) was recorded over year-end 1978. Account growth was also significant, as the number of open accounts increased 0.7 million, or 23%, to 3.7 million at year-end. Included in these 1979 figures are $479 million in receivables and 344,000 accounts to be retained from the previously announced acquisitions of Capital Financial Services Inc. and Southwestern Investment Company at year-end. Finance receivables are now in excess of $4.26 billion, reflecting an exceptional gain of more than $2.1 billion (a doubling of the portfolio) over the past three years.

However, Beneficial's earnings comparisons turned negative in the second half, markedly so in the fourth quarter, as Western Auto Supply Company generated significant losses and Consumer Finance operations were impacted by the combination of rapidly increasing borrowing costs, moderately increased delinquency and chargeoffs, and continued heavy account acquisition expenses. Also, fourth quarter Insurance earnings suffered from adverse underwriting results in international reinsurance activities.

For the year, Consumer Finance earnings fell 15% to $53.4 million from $62.8 million in 1978. However, Insurance earnings increased strongly to $50.4 million, a 22% gain. Therefore, total Finance Division profits decreased 2%. Last year's results again illustrated the close interrelationship between Consumer Finance and Insurance operations, and specifically, the valuable increment to basic Consumer Finance profitability that Insurance operations provide. Clearly, this increment was particularly important during a year when U.S. interest rates rose to unprecedented levels.

Our savings and loan subsidiary, First Texas Financial Corporation, contributed an excellent $12.6 million addition to corporate profits, despite the fact that its lending spreads were also narrowed by rising interest rates and an unrealistic statutory mortgage interest rate ceiling.

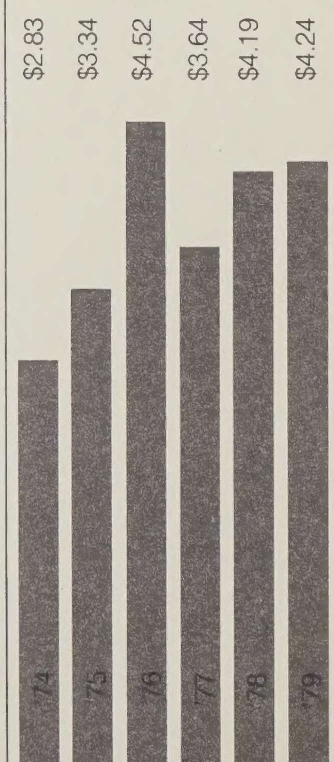
With the notable exception of Spiegel, Merchandising Division results were dismal in 1979, as Western Auto and Midland both produced net losses. Reflecting these deficits, Merchandising Division net income fell to $3.5 million from $4.3 million in 1978.

Western continued to struggle in its efforts to establish a clear merchandising niche and identity for its company-owned, retail store network. While earnings of Western's wholesale operation improved, the retail stores' operating losses and $5.8 million in net, after-tax writeoffs largely incurred in closing retail stores threw the company into a net loss position.

On December 31, 1979 ownership of Western Auto's finance subsidiary, Western Acceptance Company, was transferred to Beneficial Corporation by means of an intercorporate dividend. Western Acceptance, which finances receivables generated by Western Auto's consumer sales, is a profitable company that has equity of approximately $68 million supporting consumer receivables of $166 million. This move both simplifies Western Auto's financial and operating structure and reduces Beneficial's investment in Western by $68 million.

Midland International suffered another net loss in 1979 as demand for its key import—citizens band radios—continued to shrink. Midland is in a process of contraction as it lowers its over-

Earnings Per Share



Balance of Principal of Finance Receivables
(in billions, at year-end)

head expense commensurate with the remaining level of demand for its product lines. To aid in this process, ownership of Midland has been transferred to Western Auto, where it will operate as a subsidiary, rather than maintaining a separate corporate infrastructure.

Net of the restructuring moves at year-end, Beneficial currently has an equity investment of more than $185 million in these two troubled companies, now combined in Western Auto. To again strike a theme stressed in last year's Annual Report, we emphasize to our shareholders that we are fully aware of the magnitude of this problem. Every effort is being made to improve both the immediate profitability and the long-term fundamental health of these companies. Unfortunately, merchandising turnarounds are often a slow, painful process, and this is clearly no exception. It is our firmly committed goal to solve this problem as quickly as possible.

On a more positive note, Spiegel, the other significant component of the Merchandising Division, had a good year in 1979. Net earnings increased 35% to $8.1 million as the company's merchandising results showed very substantial improvement.

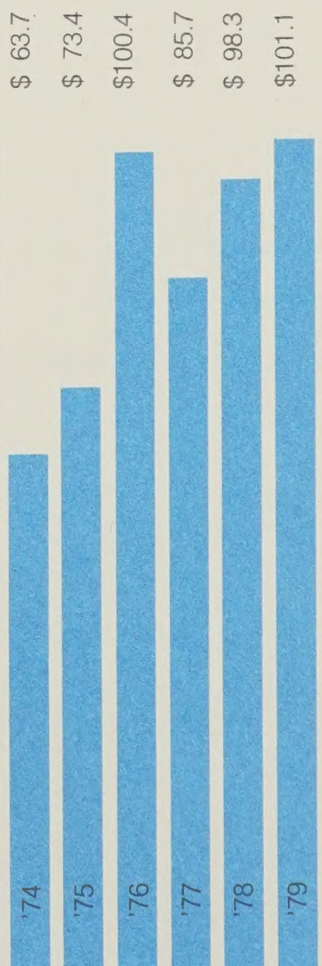
Spiegel has identified a retailing strategy and market position for itself, and is successfully implementing its development towards those goals. While Spiegel continues to earn a less than satisfactory return on equity, the company definitely appears to be making significant progress.

Clearly, retailing activities are peripheral to Beneficial's basic business—the providing of consumer financial services to a significantly expanding worldwide customer base. We have established our identity and strategy as a consumer finance company in the broadest sense of the word. Both in the United States and overseas, our marketing focus centers on the middle class consumer. As such, our competition is primarily commercial banks, credit unions and savings and loan institutions, as well as other finance companies.

Beneficial completed the acquisition of two significant financial services companies late in December. Capital Financial Services Inc., a consumer finance subsidiary of The Continental Corporation, was acquired for $110 million in notes (due 1985 through 1989) and Southwestern Investment Company (SIC), an insurance and consumer finance holding company, was purchased from Beatrice Foods Co. for $73 million in cash. In accordance with a consent decree between the Justice Department and Beneficial we have agreed to divest 136 consumer finance offices holding approximately $175 million in receivables at year-end from these two companies. An agreement in principle has been reached to sell these offices and their receivables to BarclaysAmerican-Corporation of Charlotte, North Carolina. The purchase price for the transaction, which is subject to regulatory approvals, will depend on the exact amount of receivables held by the offices on the date the transaction is closed. If the sale had been completed on December 31, 1979 the cash purchase price would have been approximately $188 million.

Net of the divestitures these acquisitions bring to the Beneficial family 320 finance offices with over $479 million in receivables along with two profitable insurance companies. While these acquisitions are anticipated to have only an immaterial effect on corporate earnings initially, we are optimistic about the incremental profits to be earned, both through internal development and operating economies, over the long term.

Net Income
(in millions)



The combination of these acquisitions and our exceptional receivable growth in recent years have increased balance sheet leverage beyond our historical levels. Management acknowledges the concern expressed by some outside observers about the increase in our debt ratios. However, we feel strongly that such concerns are misplaced.

Traditional leverage parameters that perhaps were relevant to Beneficial years ago are certainly not applicable to the Beneficial of 1980—a broadly diversified, giant, worldwide financial services complex whose marketing thrust is deeply entrenched in middle-class America. We believe that insufficient attention has been given to the diversification of our assets, the exceptional liquidity of our portfolio, the relatively long average maturity of our sources of funds,

the significant predictability of our losses and the large size of our reserves. To be sure, in the face of an increasing melded cost of funds, the only possible responses are maximization of operating efficiency and prudent expansion of financial leverage.

In that regard, improvement of expense control and restricted receivable expansion will be primary goals for 1980 operations in what is likely to be an environment of much slower consumer credit growth in the United States. The Consumer Finance Group's limited growth efforts will center entirely on second mortgage loans, which generate maximum immediate profitability. The current year will provide us with an opportunity to digest and consolidate our exceptional recent expansion, improving expense ratios in so doing.

Unfortunately, as was the case in the second half of 1978, Consumer Finance lending spreads continue under significant pressure because of sharp increases in our melded cost of borrowed funds. At year-end, the average cost of all debt, including the effect of bank compensating balances, was 9.70%, up from 8.23% at the end of 1978. Also, moderately increased delinquency and net chargeoff percentages are likely to impact 1980 Consumer Finance results. Thus, while Insurance is likely to record another strong earnings comparison, total Finance Division earnings may rise only modestly this year. Similarly, First Texas' lending spreads are being squeezed by money market conditions. With a lower contribution of real estate joint venture earnings anticipated in 1980, the First Texas contribution to Beneficial's earnings is expected to be less than in 1979. Merchandising Division results should be improved, as Western Auto returns to at least modest profitability. However, reflecting our recent private placement of $125 million in 9¼% preferred stock, the burden of preferred dividends will be sharply higher in 1980. Accordingly, management's current expectation is that consolidated earnings per share may decline modestly in 1980. The pattern of quarterly earnings is anticipated to be quite uneven, with sharply down earnings in both the first and second quarters followed by likely strengthening comparisons in the third, and particularly the fourth, quarters. These estimates are based on the assumption that 1980 will be marked by only a moderate, fairly short recession, with some signs of recovery evident by the fourth quarter. Correspondingly, interest rates are expected to decline much less sharply than in prior economic contractions (commercial paper rates may fall about 200-300 basis points during the year). These assumptions, particularly the expectation of some decline in interest rates, are central to the above forecast.

While all earnings forecasts are necessarily imprecise, and particularly so at turning points for the national economy, the foregoing represents management's current best estimate of 1980 results. In light of the difficult comparisons anticipated, particularly early in the year, we feel an obligation to share these thoughts with our shareholders.

In summation, we view 1980 as a year of consolidation and digestion of our recent acquisitions and exceptional internal growth. While the year's earnings comparison may be disappointing, we expect to emerge in a leaner, stronger operating position—in excellent condition to capitalize on the continuing outstanding prospects for Beneficial Corporation in the decade of the 1980's.

George R. Evans
Office of the President
Vice-Chairman of the Board

Finn M. W. Caspersen
Chairman of the Board

Robert A. Tucker
Office of the President
Chief Financial Officer

February 29, 1980

Earnings Summary

Beneficial Corporation's net income reached an all-time high in 1979, increasing 2.8% to $101.1 million from $98.3 million in 1978. Earnings per share rose 1.2% to $4.24 from $4.19 in 1978, but were below the 1976 record of $4.52 because of a greater number of shares outstanding now. It should be noted that, beginning in 1979, Beneficial discloses only one earnings per share number (corresponding to historical primary earnings), since potential dilution from preferred stock conversions is now less than 3%.

Beneficial modified its reporting method for consolidated earnings during 1979. Interest expense related to investments in subsidiaries that are not part of the Finance Division has been removed from interest expense and is shown, net of taxes, as a separate item. Similarly, interest expense related to investments in the Insurance Group has been removed from interest expense of Consumer Finance (although it is included in the Finance Division's income statement.) While these changes have no effect on consolidated net income, management is confident that they result in a more meaningful measure of Consumer Finance and Finance Division profitability. Prior years' results have been restated accordingly.

During 1979 the charge for corporate interest expense related to investments in non-consolidated subsidiaries (the Merchandising and Savings and Loan Divisions) was $14.6 million after-tax, compared to $10.0 million in 1978.

Summary discussion of divisional earnings results follows.

Finance Division

After recording compound annual growth of nearly 20% per year over the 1974-1978 period, Finance Division earnings decreased 2% in 1979.

Finance Division Earnings
(in millions)

(in millions)	1979	1978	% Increase (Decrease)
Revenue			
Consumer Finance (a)	$720.8	$589.1	22%
Insurance Group (a)	262.1	180.4	45
Finance Division	$982.9	$769.5	28
Net Income			
Consumer Finance	$ 53.4	$ 62.8	(15)
Insurance Group	50.4	41.3	22
Interest Expense (b)	(4.2)	(2.6)	61
Finance Division	$ 99.6	$101.5	(2)

(a) Excludes intersegment revenue.
(b) Interest expense, after income taxes, related to investment in the Insurance Group.

The Insurance Group's 22% earnings gain partially offset Consumer Finance's 15% decline. Consumer Finance lending spreads were squeezed by sharp increases in the cost of borrowed funds, both short and long-term. Also, because of the year's exceedingly strong receivable growth, heavy account acquisition costs reduced profitability again in 1979, as they had in 1978. Additions to the loan loss reserve to provide for growth in the portfolio had a particularly depressing effect. This factor, coupled with an increase in the net chargeoff percentage of average receivables to 1.87% from 1.57% in 1978, caused the provision for credit losses to increase 44% to $102.4 million from $70.9

million in 1978. Generally, the credit quality of the portfolio weakened modestly in the second half, so that increased delinquency had some drag effect on revenue growth, particularly in the fourth quarter.

Insurance earnings benefited from excellent growth in domestic underwriting profits and a fine 36% gain in investment income. International insurance earnings declined, reflecting underwriting problems encountered in the fourth quarter. Also, international results were burdened by a $1.8 million after-tax adverse swing in foreign exchange translation.

On a consolidated basis, the Finance Division enjoyed a net, after-tax profit of $1.0 million on foreign exchange, compared to the loss of $2.8 million recorded in 1978.

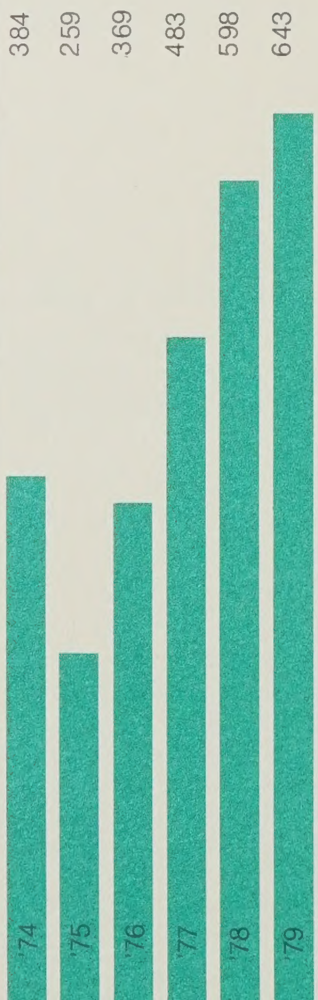
Savings & Loan Division

Beneficial completed the acquisition of First Texas Financial Corporation on April 6, 1979. First Texas, like virtually all other savings and loan companies, experienced marked pressure on lending spreads in 1979 because of money market conditions. In addition, an unreasonable statutory mortgage interest rate ceiling prevailed in Texas for most of the year, and even when altered in September, failed to provide significant relief. Nevertheless, aided by strong real estate joint venture income and gains on the sale of previously-foreclosed real estate, First Texas recorded an increase in earnings to $13.8 million in 1979 from $10.8 million in 1978. Reflecting Beneficial's fractional ownership of First Texas during 1978 and early 1979, as well as required purchase accounting adjustments, First Texas contributed $12.6 million to Beneficial's earnings in 1979, up from a contribution of only $2.5 million in 1978.

Merchandising Division

Although Spiegel produced good operating comparisons, Merchandising Division results were again quite disappointing in 1979 because of net losses recorded at both Western Auto and Midland.

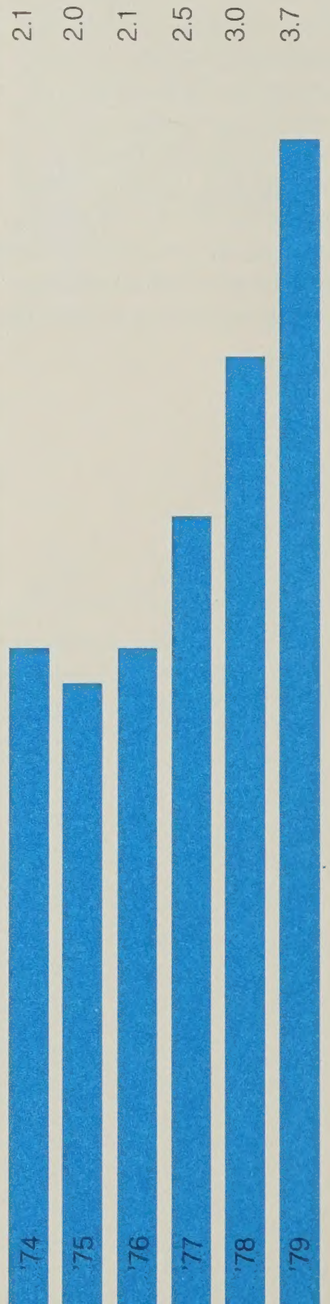
Number of New Borrower Loans
(in thousands)



(in millions)	1979	1978	% Increase (Decrease)
Net Sales and Other Revenue			
Spiegel	$426.8	$370.7	15%
Western Auto	698.1	683.1	2
Midland	52.0	62.1	(16)
Merchandising Division	$1,176.9	$1,115.9	5
Net Income (Loss)			
Spiegel	$8.1	$6.0	35
Western Auto	(1.5)	3.0	(150)
Midland	(3.1)	(4.7)	34
Merchandising Division	$3.5	$4.3	(19)

Spiegel enjoyed a 35% gain in net income despite a 44% increase in interest expense because of significantly improved merchandising results. Western Auto's results were reduced by writeoffs taken in both the third and fourth quarters. In the third quarter, Western provided $4.3 million after-tax for the closing of 116 company-owned stores that had been generating substantial losses. In the fourth quarter Western took a $1.5 million after-tax charge to provide for write-downs of retail installment receivables. Midland recorded another net loss in 1979 because of the continuing erosion in demand for CB radios.

Number of Accounts
(in millions, at year-end)



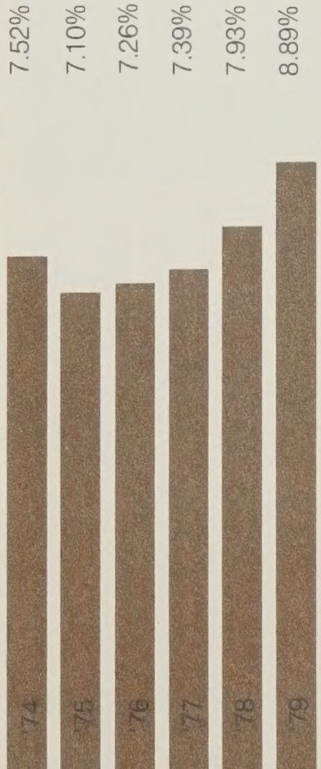
Financing

Beneficial Corporation raised over $1.1 billion in the long-term capital markets in 1979, by far the company's most active financing year. This impressive total was necessitated by the combination of the company's outstanding internal receivable growth, acquisitions, and over $195 million in long-term debt maturities during the year.

Illustrating the strength of Beneficial Corporation and the breadth of its access to the capital markets, $700 million of this total was sold in the public market. In February, $150 million of 9.40% intermediate term debentures were sold to mature in 1985. An innovative $200 million "floating-rate" issue was sold in May. Initially priced to yield 11.50%, these notes carry a variable interest rate (to be adjusted at six month intervals) of 50 basis points above the interest yield equivalent of six month U.S. Treasury bills. Maturing in 1987, these securities are convertible (at the holder's option) in 1986 or before into 8.625% fixed rate debentures due in 2004. Also, for the first time Beneficial utilized the Eurodollar market as a funding source in 1979, as a $100 million issue of 9¾% notes due in 1987 was placed in July. Finally, Beneficial sold the largest bond issue in its history in December, when $250 million of 11.50% debentures were sold. These securities mature at the option of the holder in 1984. However, if the holder does not tender the bonds at that time, they automatically convert into 9% bonds due in 2005.

Beneficial was also active in private placements in 1979, as several smaller issues were placed both domestically and overseas. Most noteworthy of the private placements was the sale in November of $125 million in 9¼% serial preferred stock. Placed mainly with large insurance companies, the issue is subject to a sinking fund which will retire the issue in minimum annual installments beginning in 1985 and ending with the final maturity in 1999, giving the issue an average anticipated life of 13 years. While certainly an "expensive" form of financing, given the fact that dividends are not tax deductible, the issue was considered prudent to strengthen Beneficial's equity base in the face of the recent years' significant receivables expansion. Part of this issue was subject to delayed takedown in early 1980, so that our year-end balance sheet shows only $103 million of this issue outstanding.

Interest Expense— Effective Rate



The acquisition of Capital Financial Services Inc. from The Continental Corporation was directly financed through an addition to long-term debt, since Continental took $110 million in notes from Beneficial in payment. These notes, which will amortize in equal payments in the sixth through tenth years, carry a variable interest rate of 1.0% over bank prime, subject to a cap of 12% and a floor of 10%.

Unfortunately, long-term interest rates rose to record levels in 1979. Thus, the substantial additions to long-term debt during the year, as well as the rollover of maturing issues raised the embedded cost on Beneficial's total long-term borrowings to 8.44% at December 31, 1979 from 7.56% at the end of 1978. Included in the 1979 figure is the total long-term debt of Capital Financial Services Inc. and Southwestern Investment Company, which were consolidated just before year-end.

Continuing the trend that has been apparent since late 1977, short-term interest rates continued to rise during 1979, reaching unprecedented levels late in the year. Reflecting this influence, Beneficial's weighted average short-term borrowing cost in the U.S. by quarter (beginning with the first quarter) was as follows: 10.80%, 10.81%, 10.99%, and 14.23%.

Accordingly, the melded average rate of interest expense on all borrowings, worldwide, including the effect of bank compensating balances, rose to 8.89% in 1979 from 7.93% in 1978. The quarterly breakdown ran as presented in the following table.

Melded Average Borrowing Cost

	1979	1978
1st quarter	8.40%	7.86%
2nd quarter	8.46	7.90
3rd quarter	8.88	7.73
4th quarter	9.66	7.97
Full year	8.89%	7.93%

Weighted average interest rates on debt outstanding at year-end were as follows:

	1979	1978
Demand master note	12.25%	10.25%
Banks	14.64	10.72
Commercial paper	13.23	10.33
Long-term debt	8.44	7.56

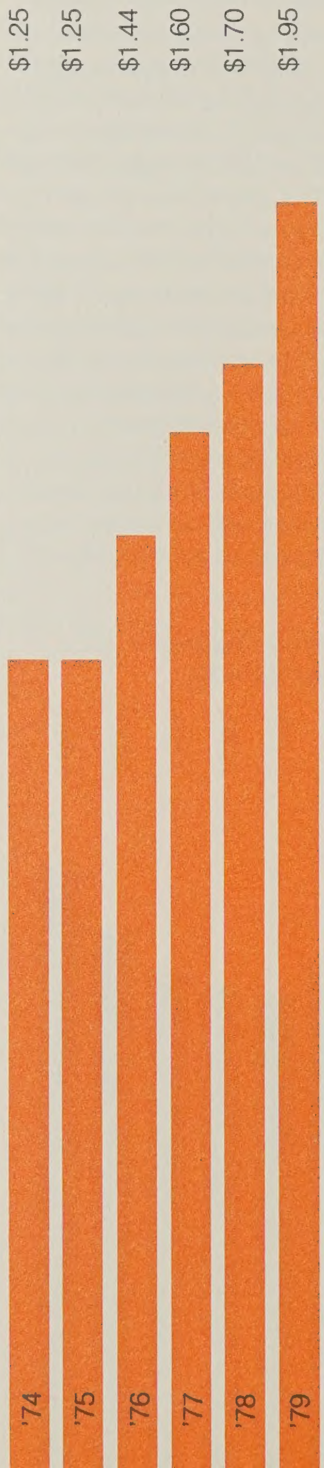
Despite Beneficial's particularly active long-term financing during 1979, short-term debt rose as a percentage of total borrowings because of the year's exceptional capital requirements. The consolidation of Capital and SIC served to inflate the short-term debt ratio modestly, as well. Over time, management would expect that this ratio would trend down again towards the company's historical levels of roughly 15%-20%, since it continues to be corporate strategy to finance growth through long-term debt to the greatest extent possible. Beneficial Corporation and Consolidated Subsidiaries' borrowings at the past two year-ends were as follows:

	1979		1978	
(amounts in millions)	Amount	% of Total	Amount	% of Total
Short-Term Debt:				
Banks	$ 347.7	8.1%	$ 199.9	7.3%
Commercial Paper	582.2	13.5	279.0	10.2
Employee Thrift Accounts	47.6	1.1	41.1	1.5
Total	$ 977.5	22.7	$ 520.0	19.0
Long-Term Debt:				
Due within One Year	$ 170.8	3.9	$ 195.5	7.2
Other	3,153.9	73.4	2,014.5	73.8
Total	3,324.7	77.3	2,210.0	81.0
Total Debt	$4,302.2	100.0	$2,730.0	100.0

Despite the commitment to fund the greatest percentage of growth in the long-term market, the sheer size of Beneficial's present portfolio demands increasing absolute amounts of short-term debt as well. Accordingly, the company has embarked on a program to increase available bank lines of credit from approximately $400 million to approximately $800 million. In so doing, compensating balance agreements are also being changed. In the past, bank relationships had called for 10% of the line or 20% of the amount borrowed, whichever is greater. Effective in 1980, arrangements with all banks call for a 7% compensating balance on half the line and a 0.50% per annum commitment fee on the other half of the line, paid quarterly in arrears, with no additional balances for line borrowings. This change will reduce the effective cost of bank borrowings for the company.

In order to minimize exposure to changes in foreign currency values versus the dollar (specifically their income statement impact), Beneficial attempts to fund its overseas operations in local currencies to the greatest extent possible. Accordingly, during 1979 substantial borrowings were taken down in Canadian, Australian and New Zealand dollars, British pounds, West German marks, and Japanese yen. As a result of this policy, Beneficial's net asset exposure in foreign currencies has been reduced to negligible levels, despite the substantial scope of foreign operations. Currently, the largest exposures are in Australian dollars (approximately $23 million), German marks ($14 million), and British pounds ($11 million). Canadian foreign currency exposure has been essentially eliminated. It is anticipated that Australian exposure will also be largely eliminated by year-end.

Dividends Paid
(per common share)



Beneficial Corporation sells commercial paper directly to institutional and other sophisticated investors. While notes are sold for terms of 15 to 270 days, the average maturity of commercial paper borrowings generally runs approximately 20–30 days. Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors Service assign their highest ratings of P-1, A-1, and F-1, respectively, to Beneficial's commercial paper.

The company's debentures are rated Aa by Moody's and AA by Standard & Poor's.

About The Company

Beneficial Corporation is one of the fastest growing diversified financial services companies in the world. Including the assets of our wholly-owned subsidiaries Beneficial is an $8 billion company, providing consumer financial services in the United States, Canada, Australia, the United Kingdom, West Germany, Japan and New Zealand.

Consumer finance is the cornerstone of our business, and the source of our market franchise. Through nearly 2,400 offices the Beneficial Finance system extends virtually every type of consumer credit; unsecured personal loans, second mortgages, first mortgages, credit card loans (including our own proprietary "Bencharge" card and also VISA and Master Charge), revolving credit (including check overdraft facilities), and sales finance.

Beneficial Corporation is actually a holding company for its various operating subsidiaries. Beneficial Management Corporation, based in Morristown, New Jersey, is the key subsidiary that oversees the finance office network, providing supervision, audit, accounting, and other management services to the operating subsidiaries.

Beneficial's "product" is perhaps the most fungible and indistin-

Finn M. W. Caspersen, Chairman of the Board and Chief Executive Officer.

guishable of any—money. Accordingly, the strength of operating management is perhaps Beneficial's key asset. This strength extends down through a carefully structured supervisory network into the individual loan offices. Regional supervisors are each responsible for a group of approximately ten branch offices. Each supervisor reports in turn to one of the twenty-one operating vice presidents responsible for the field departments. Each of the operating vice presidents, who are responsible for approximately 115 offices, is assisted in most cases by two assistant vice presidents, and individual personnel, marketing, and real estate supervisors. Finally, the departments report to senior operating management at headquarters.

Along with consumer finance, Beneficial is also a major source of insurance services for both consumers and corporations. Through the Beneficial Insurance Group (BENICO), Beneficial provides a wide variety of life, annuity, accident and health, and property and liability insurance coverages. The major thrust of BENICO's business is consumer credit insurance, writing loan-related coverages on both Beneficial loans and the loans of a rapidly expanding roster of unaffiliated consumer lenders as well. Consumer credit insurance insures the balance of an individual's loan obligation. Credit life pays the loan in full should a borrower die, while credit accident & health makes the scheduled monthly payments on the loan if the borrower is disabled and unable to work. Credit property insures the collateral securing the loan, offering the consumer the key advantage of full replacement cost coverage, rather than the depreciated value coverage common to most homeowner policies. BENICO also participates in the domestic and international reinsurance markets insuring small portions of a wide variety of property and casualty and accident and health risks.

During 1979 Beneficial completed the acquisition of First Texas Financial Corporation, the second largest savings and loan company in the state of Texas with assets in excess of $1.6 billion. Through 61 offices First Texas offers a broad array of financial services, specializing in consumer savings and home mortgages of course, but also making unsecured consumer loans and offering related insurance products. In addition, First Texas conducts limited real estate development and construction loan activities.

Beneficial conducts a significant merchandising business through our retailing subsidiaries, Spiegel, Inc. and Western Auto Supply Company. Spiegel is one of the nation's leading mail-order retailers—America's fashionable department store in print. Western Auto is a hard goods retailer, specializing in automotive supplies and service, lawn and garden supplies, and bicycles, as well as other lines, offered through a dual distribution system of both company-owned and franchised stores. Midland International, our small subsidiary which imports citizens band radios and other electronic equipment from the Orient, has been combined with Western Auto.

Beneficial also owns a small commercial bank. Peoples Bank & Trust Company of Wilmington,

Delaware provides the key advantage of issuing VISA and Master Charge cards, broadening the array of financial services that Beneficial offers.

Contrary to the image of consumer finance companies in some circles, Beneficial is no longer a small loan lender of last resort, dealing only with consumers who cannot obtain credit elsewhere. Rather, Beneficial's customer base, both in the United States and overseas, is the rapidly-expanding middle class, chiefly the burgeoning 20-45 year old age group. As indicated by our nearly $1 billion in gross second mortgage outstandings, homeowners represent a large proportion of our customers. The demographics of our borrowers are essentially equivalent to those who borrow at commercial banks.

In short, Beneficial is an aggressive, dynamic company, whose marketing thrust is in the mainstream of the American consumer economy. As such, although the receivables portfolio has doubled in size within the past three years, our market-share is still quite modest. Growth potential remains exciting.

Robert A. Tucker, Office of the President and Chief Financial Officer of Beneficial Corporation, maintains close contacts with Beneficial's investment bankers. Beneficial raised over $1.1 billion in the long-term capital market in 1979.

Revenue: $732.7 million, 22% over 1978.

Net income: $53.4 million, 15% below 1978.

Finance receivables (less unearned finance charges) at year-end: $4.26 billion, 41% over 1978.

Total number of accounts at year-end: 3.7 million, 23% over 1978.

Number of loans made: 2.8 million, 17% over 1978.

Amount of loans made: $3.27 billion, 21% over 1978.

Average size loan made: $1,177, 7% over 1978.

Number of offices: 2,399, 24% over 1978.

The Consumer Finance Group recorded another year of unparalleled receivables growth in 1979. Excluding the acquisitions of Capital Financial Services Inc. and Southwestern Investment Company, net receivables increased a record $770 million (25%) during the year. Including the $479 million in receivables to be retained in the acquisitions of these companies, total receivables (net of unearned finance charges) increased $1.25 billion to $4.26 billion at December 31, 1979. Taken together, all acquisitions contributed $613 million to the year's receivable gain while internal growth generated the $636 million remainder. Internal growth benefited from particularly strong gains in second mortgage outstandings.

However, as discussed previously, Consumer Finance net income fell to $53.4 million from $62.8 million in 1978, as margins were squeezed by a sharp increase in the cost of borrowed funds, a moderate rise in delinquency and net chargeoff percentages, and heavy front-end loan loss provisions to provide for the year's exceptional portfolio growth. Also, operating expenses were inflated by the costs of substantial increases in the customer base.

Selected aspects of Consumer Finance Group (excluding Capital & SIC) operations are reviewed in the following sections.

Second Mortgages

Second mortgage and other real estate secured loans showed outstanding growth again in 1979 and continue to be the largest contributor to Beneficial's receivables expansion. At year-end, second mortgages outstanding, net of unearned finance charges, totaled $830.5 million, up 70% from $488.1 million at December 31, 1978. Included in these totals are modest amounts of first mortgages made by the Beneficial loan offices.

During 1979, second mortgage loans made averaged $12,102, up from $10,427 in 1978. While the average contractual maturity is slightly over 13 years, historical experience has been that loans are generally paid off in 3-4 years, as people move or refinance.

Beneficial's typical second mortgage loan is made to an established homeowner who has lived in his or her home for several years. Conservative appraisals are made by independent examiners, and loans generally do not exceed 75% of the owner's equity as indicated by the outside appraiser's assessment of value. For this prototype consumer, who likely has a relatively low interest rate, by current standards, on his or her first mortgage loan, the taking of a second mortgage from Beneficial as a source of cash offers significant savings as opposed to increasing and refinancing his or her entire first mortgage at the rates now prevalent.

Second mortgage lending attracts high-quality, established

Robert M. Grohol (left), Senior Vice President—Operating, with Thomas E. Gerrity, Vice President—Midwest Department. Supervisory executives travel extensively to visit field operations.

customers to the Beneficial offices, customers who often also purchase related insurance products. As might be expected, chargeoffs and collection activity related to this type of lending are minimal. Accordingly, despite the somewhat lower rates of charge, second mortgage lending is an extremely attractive and profitable activity.

Revolving Loan Programs

Pre-approved, revolving loan programs whereby the customer essentially "writes his or her own loan" by means of regular bank checks that can be used to access an available line of credit continue to expand rapidly. A zero balance account is established and checks are issued by Beneficial's small commercial banking subsidiary, Peoples Bank & Trust Company of Wilmington, Delaware. The resulting loans that the consumer takes down are immediately transferred to the loan office initiating the transaction.

Richard A. Wagner is President and Chief Executive Officer of Beneficial Management Corporation, the subsidiary which manages the loan office network. He is photographed on a visit to the Allentown, Pennsylvania office.

David J. Farris, Executive Vice President—Operating.

Revolving loan programs have received regulatory approval and are operating in 24 states, as compared to 18 states at the end of 1978. Revolving loan net receivables total $95.8 million, a 96% increase from $48.8 million at December 31, 1978. In 22 states Homeowner Checking plans are available, whereby a consumer accesses a line of credit secured by a second mortgage on his or her home.

Revolving loan programs offer the consumer a quick, easy, convenient way to obtain credit, avoiding the necessity of coming in to the loan office and reapplying each time additional cash or a new loan is desired. It saves money for the borrower, since he or she only pays interest on the funds actually in use, for only the time the cash is needed. Consumers like it. Beneficial also likes it, since it provides marked operating efficiencies in reducing office paperwork and staff interview and investigation time. Revolving credit would appear to be a significant growth area for the future.

Sales Finance

Consumer sales finance contracts showed good growth in 1979. Outstandings climbed 35% to $311 million at year-end. Contributing significantly to this growth was continued rapid expansion of the Bencharge revolving credit system for department and chain stores and other local merchants. Bencharge issues either its own or private label credit cards, and, in certain instances, utilizes on-line store terminals connected to Beneficial's Bencom computer network.

Sales finance activities are particularly valuable as an incremental source of new customers to Beneficial, many of whom will likely take advantage of Beneficial's financial services again in the future.

Credit Scoring Systems

In recent years, sophisticated credit scoring systems, which augment the credit judgement abilities of individual office managers, have become increasingly valuable in controlling portfolio risk. These computerized formulas, which predict the creditworthiness of prospective borrowers based on statistical weightings of various factors, generate a numerical "score" for each applicant. Naturally, either below or above certain levels the credit decision becomes automatic, but in the middle ground there remains substantial room for the manager's own credit judgement.

Beneficial has five separate systems for different regions of the country, and screening criteria are exhaustively re-examined and tested every two years. In the interim, cut-off scores can be altered immediately in response to changes in regional or national economic conditions. Credit scoring is an important tool for operating management.

Bencom

Bencom is the on-line computer system which links the entire North American loan office network with headquarters. The system generates marked administrative efficiencies through its handling of routine office clerical work and record keeping, providing cash management and supervisory services, and serving as the communications link for the network. With relatively minor alterations, Bencom could function quite well in an

William G. Weiss, Senior Vice President—Operating, has supervisory responsibility for six departments.

John P. Howland and Tatyana Doughty, both Associate Counsel, are members of Beneficial's legal department.

electronic funds transfer environment, should such a system evolve in America.

Bencom's services are also provided to other finance companies on a fee basis.

Worldwide Scope of Operations

Beneficial's Consumer Finance Group operates 2,399 offices in 7 countries. Although the United States (2,028 offices) and Canada (177) represent the heart of the system, Beneficial is also well represented in Australia (106), the United Kingdom (55), Puerto Rico (17), West Germany (6), Japan (7), the Virgin Islands (2), and New Zealand (1). The entry into the New Zealand market was made in 1979, as Beneficial purchased a small indigenous finance company, making Beneficial one of the very few foreign financial institutions to have a presence in this limited but attractive market.

At the end of 1979 foreign consumer finance receivables totaled $559 million or 12.6% of the total portfolio, versus $458 million or 15.2% of the portfolio at the end of 1978. Partially as a result of the troubled economy and uncertain political situation in Quebec, Canadian receivables increased only 2% to $227.0 million from $222.7 million at December 31, 1978. However, Australian outstandings increased 41% to $160.1 million from $113.1 million. In the United Kingdom, receivables climbed 63% to $84.0 million, while West German receivables were up 16% to $81.0 million. Although still in essentially a start-up phase, Japanese operations showed progress, and receivables ended the year at $2.7 million, up from only $0.4 million at the end of 1978. New Zealand outstandings totaled $4.7 million at year-end.

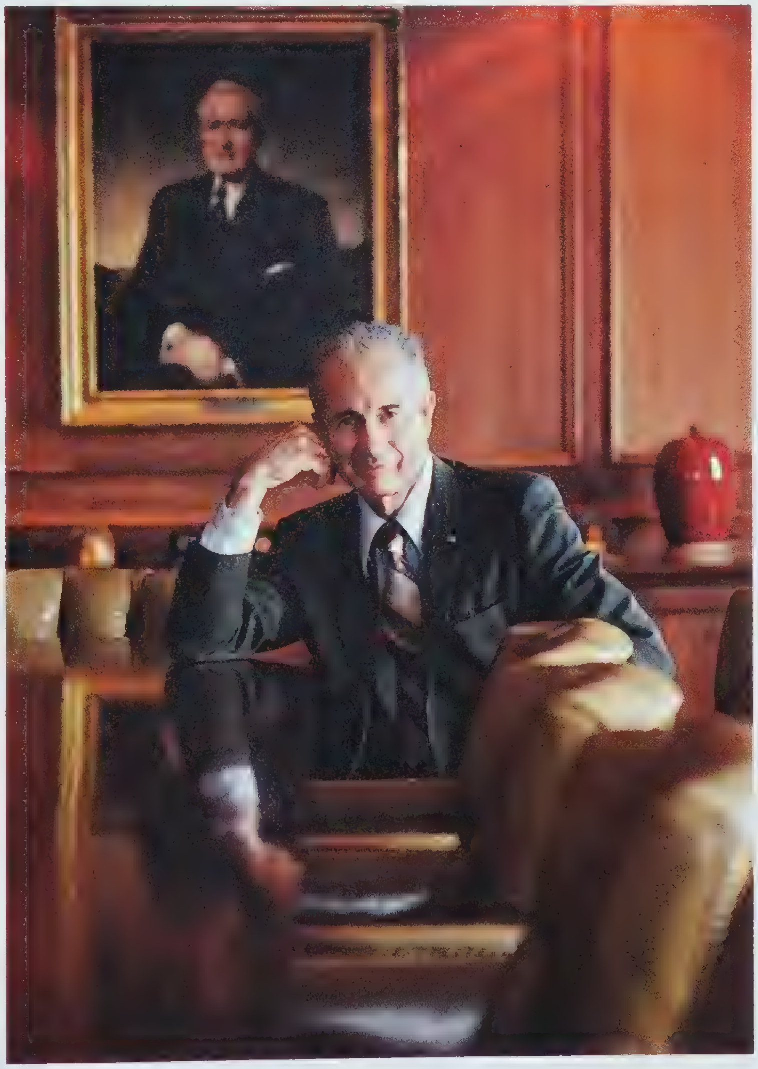
Even within North American operations (total receivables of $3,458 million) Beneficial's outstandings are broadly dispersed, although California is a particularly important state. The largest states, in order of importance as to percentage of total North American outstandings are California, 23.0%; New York, 8.3%; Pennsylvania, 5.9%; New Jersey, 5.6%; and Ohio, 4.2%. These figures do not include the receivables of Capital and SIC.

Income Tax Service

Beneficial Income Tax Service, which operates in the consumer finance offices in 44 states and Canada, made good progress in 1979. The number of returns prepared increased 5% to 237,571, while most significantly, dollar revenues climbed 30% to $5.3 million. This activity offers the advantage of generating loan activity during the seasonally slack first quarter.

Leasing

During 1979 Beneficial Corporation substantially enlarged its participation in the leasing business by the establishment of a new subsidiary, Beneficial Leasing Group, Inc., formed to engage in both "big ticket" leveraged leasing and leveraged and unleveraged "middle market" leasing. Staffed by a group of experienced leasing professionals, the unit's focus in large leases centers on transportation equipment—airplanes, railroad cars and locomotives, container-



Charles W. Bower, Senior Vice President and Treasurer, as well as being a Director of Beneficial, is shown in the board room in Wilmington.

ships and barges—equipment whose residual values appear to be predictable within reasonable ranges. In addition to the anticipated residual values and the potential to earn additional rental income by continuing to lease the equipment after the expiration of the initial lease term, the utilization of investment tax credits and accelerated depreciation methods in connection with leasing activities offers very significant tax benefits to a company such as Beneficial. Beneficial Leasing Group's equity in leased equipment at year-end was $67.2 million.

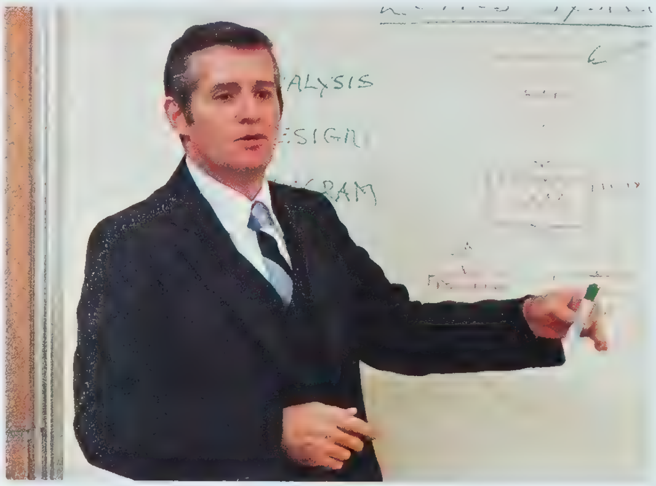
Included in the above figure are the $32.5 million in outstandings of Parliament Leasing Company, Beneficial's existing leasing subsidiary which now becomes a part of Beneficial Leasing Group. Parliament specializes in the leasing of medical, dental, and hospital equipment, a market in which the company has a strong presence.

Credit Loss Experience—Condition of the Portfolio

Beneficial's net chargeoff percentage, after three years of consecutive declines, turned upward in 1979. Gross finance receivables charged off, net of recoveries, increased to 1.87% of average gross receivables outstanding from 1.57% in 1978. However, this percentage remains well below the peak level of 2.42% reached in recession-influenced 1975. The ratio was essentially unchanged through the first half of the year, but loss experience worsened in the second half as consumers' real incomes were impacted by the combination of a slowing national economy and continuing rapid inflation.

Reflecting these influences, loan delinquency also increased moderately. The percentage of loan receivables more than two months delinquent rose to 1.26% at December 31 from 1.15% at the end of 1978. However, the overall level of delinquency in Beneficial's portfolio continues among the lowest in the consumer finance industry.

At year-end, the reserve for credit losses totaled $203.7 million, compared to $147.8 million at December 31, 1978. As a percentage of year-end receivables the reserve declined modestly to 4.78% from 4.90% at the end of 1978. During 1979 Beneficial Corporation embarked on a segmented approach to calculating the reserve for credit losses, in recognition of the substantial change in the nature of the portfolio in recent years as second mortgages have increased dramatically. Simply put, the computation of the reserve recognizes actual historical loss experience on the various categories of loans made; regular installment loans, sales finance, second mortgages, etc. and provides a more reasonable benchmark for what the consolidated reserve should be. Management made the decision to reduce the reserve percentage only at a relatively slow pace, so as not to significantly distort earnings. As it has been in past years, the reserve remains one of the very largest, if not the largest among significant consumer finance companies. At its year-end level, the reserve was 2.8 times actual 1979 net chargeoffs. The broad geographical dispersion of Beneficial's portfolio across the United States and Canada and in 5 overseas countries minimizes the exposure to particular local economic conditions, and gives the portfolio the characteristics of a broad actuarial base. Moreover, it is clear that the demographics of Beneficial's customer base have improved significantly in recent years.



John J. Leonard, Vice President, outlines the Bencom data base management system.

Clifford W. Snyder, Senior Vice President—Advertising and Press Relations, oversees the production of a television commercial. Beneficial's advertising makes extensive use of network television.

Data for the six years ended December 31, 1979 follows:

(amounts in millions)

Year	Provision for Credit Losses(a)	Gross Amount of Receivables Charged Off	Finance Receivables Charged Off(a) Amount	Finance Receivables Charged Off(a) % of Average Gross Finance Receivables	Reserve for Credit Losses at End of Year Amount	Reserve for Credit Losses at End of Year % of Finance Receivables at End of Year(b)	Consumer Loan Receivables More Than Two Months Delinquent(c)
1979	$102.4	$81.8	$73.2	1.87%	$203.7	4.78%	1.26%
1978	70.9	59.0	51.1	1.57	147.8	4.90	1.15
1977	65.7	55.8	48.5	1.74	126.3	5.00	1.08
1976	60.4	54.8	48.4	2.04	106.3	5.10	1.19
1975	54.8	57.2	51.8	2.42	95.0	5.20	1.29
1974	51.1	50.0	44.9	2.12	92.6	5.20	1.28

(a) After offsetting recoveries.
(b) After deducting Unearned Finance Charges.
(c) Excludes bank credit card receivables and receivables of West German bank.

Dale T. Taylor, President of Peoples Credit Corporation (Beneficial's credit card subsidiary), appears in the unit's data input center.

Richard A. Bate, Senior Vice President—Counsel (left), and Charles E. Hance, Senior Vice President—Litigation Counsel.

Domestic Companies,

The Central National Life Insurance Company of Omaha

American Centennial Insurance Company

Northwestern Security Life Insurance Company

Guaranty Life Insurance Company of America

Guaranteed Equity Life Insurance Company

FTS Life Insurance Company

Western National Life Insurance Company (acquired December 1979)

COMCO, Inc. (acquired December 1979)

Service General Insurance Company (acquired December 1979)

Petroleum State Insurance Company (acquired October 1979)

Overseas Companies

Beneficial International Insurance Company, Limited

Beneficial American Insurance Company, Limited

Consolidated Marine & General Insurance Company, Limited

Benico Insurance Company, Limited

BENICO, the Beneficial Insurance Group, experienced a year of continued significant progress by any measure in 1979. With the addition of acquired companies at year-end, total assets exceeded $950 million at December 31, 1979. Most significantly, it was the eighth consecutive year of record earnings for the Group, as net income increased 22% to $50.4 million from $41.3 million in 1978. Since 1971, earnings have increased at a 37% compound annual rate.

Written premiums totaled $272.7 million, a 60% gain, while earned premiums expanded 46% to $217.5 million. The gain in written premiums was inflated by a $58.0 million addition representing the reinsurance of a large block of annuity contracts. Including acquired companies, stockholder's equity increased 74% to $304.9 million, so that the ratio of premiums written to year-end net worth (adjusted for the brief ownership of the acquired companies) was an extremely conservative 1.13 to 1, up only slightly from 0.98 to 1 in 1978. Investment income, a major component of the Group's earnings, surged 36% to $32.0 million from $23.5 million in 1978. Additionally, realized capital gains, net of applicable taxes, rose to $1.6 million from $0.3 million in 1978.

BENICO is a multinational complex of both life and casualty insurers which underwrite, both directly and as reinsurers, a wide variety of life, annuity, accident and health, and property and liability coverages. The primary thrust of the Group, however, is in the highly specialized consumer credit insurance market, where the companies rank among the industry leaders.

Needless to say, credit coverages written in connection with loans made by the Beneficial Finance System continue to represent the largest single source of premium income, generating nearly 41% of total earned premiums in 1979 and a greater percentage of the Group's net income. The Beneficial office network is the key marketing channel distributing BENICO's insurance products in a highly cost-effective manner. However, while growing rapidly, Beneficial-related premium also continues to decline as a percentage of total premiums written since outside business is growing at an even faster rate.

Robert E. Gaegler (right), President of BENICO, discusses a point with William W. Burress, Assistant Vice President in charge of auditing activities for BENICO.

R. Donald Quackenbush, BENICO's Chairman of the Board, is shown among the Group's claim files. Last year BENICO paid nearly a quarter of a million individual insurance claims.

James T. Kearns, Executive Vice President, is in charge of all marketing activities for BENICO.

Robert E. Styles was recently promoted from the field to become Senior Vice President—Operating of Beneficial Management Corporation at headquarters in Morristown, New Jersey.

The table below illustrates these trends.

Earned Premiums
(in millions)

Year	Beneficial Finance Credit Life	Beneficial Finance Credit A&H	Beneficial Finance Credit Property	All Non-Beneficial Finance	Total
1979	$30.8	$33.8	$23.8	$129.1	$217.5
1978	29.4	22.4	19.8	77.4	149.0
1977	24.7	20.0	17.0	52.6	114.3
1976	22.2	16.7	14.7	36.7	90.3
1975	18.9	15.6	11.6	23.4	69.5
1974	18.8	12.4	9.5	18.0	58.7
1973	17.0	15.4	2.6	9.7	44.7
1972	15.8	14.1	.8	7.3	38.0
1971	13.3	9.5	—	2.2	25.0
1970	10.8	4.7	—	2.6	18.1
1969	10.1	3.9	—	—	14.0

David W. Valentien, Vice President, is responsible for management information services. His department produces the exhaustive reports which measure operating performance of the entire loan system, and of each individual office.

The rapidly growing volume of non-Beneficial business continues to be generated from a wide variety of sources. Credit insurance written for other consumer lenders generated about 21% of non-Beneficial earned premium in 1979, and is a key area of development. The offering of BENICO's credit insurance products through banks, other finance companies, automobile dealers and other retailers opens a huge potential market, and offers the opportunity of profitably leveraging the Group's established products and expertise. Opportunities in this area are being pursued aggressively.

Contrary to the protestations of various self-appointed consumer advocates, credit insurance is both a wanted and needed product. As corroborated by a recent Federal Reserve Board study and other surveys, consumers like it, since it provides them with additional protection, at a modest monthly cost, along with their other basic insurance coverages. Written at group rates, the coverages are generally not subject to underwriting, so that consumers can usually obtain the protection irrespective of their age, medical history, or the neighborhood they live in.

Property and liability reinsurance risks are assumed in American Centennial and our overseas companies. These coverages represented approximately 38% of the non-Beneficial earned premium last year. Intentionally varied in source, this business is accepted from carefully selected brokers, insurance intermediaries and casualty companies. Per incident risks generally do not exceed $75,000 in these lines and coverages are usually written at high excess layers (substantial losses would have to be incurred by the primary insurers before the Group's coverage

Paul J. Finfer is President of Beneficial Leasing Group, Inc., Beneficial's leasing subsidiary. Leveraged leasing activities center on transportation equipment such as large containerships.

takes effect). The mix of the book includes property business, primary workers' compensation, accident & health, inland marine, and some automobile business, but only from carefully selected states.

Unfortunately, problems were encountered with international reinsurance underwriting results during the fourth quarter. Reflecting the drag of these losses, consolidated Insurance earnings fell 7% during the quarter, breaking BENICO's streak of 13 consecutive year-to-year gains in quarterly earnings. However, it would appear that the fourth quarter's reserve accruals cover the exposures, so that the drag of International operations on 1980 comparisons should be markedly reduced, if not eliminated.

Finally, blocks of ordinary life or annuity reinsurance are also assumed in "surplus relief" type situations. The BENICO Group's particularly strong capital position allows it to be a selective, highly profit-conscious participant in this market. Along with the increment to earnings, these arrangements have the added benefit of strengthening the life companies' tax qualification ratios. Ordinary life and annuity reinsurance contributed approximately 41% of non-Beneficial earned premium in 1979.

Outside the Beneficial Finance System, BENICO has historically had essentially no conventional agency force. Accordingly, only insignificant amounts of ordinary life insurance are written directly by the companies each year. Experimental programs continue in the offering of term life insurance through the loan offices, but as yet substantial volumes of business have not been generated because of regulatory and licensing limitations in many states. However, Northwestern Security Life, acquired in January, 1979 does have a small agency force, and the recently acquired Western National Life (see below) has a substantial agency force, so that increasing volumes of annuity and ordinary life business are expected to be generated in the future.

Investment activities continue to follow a conservative strategy, with the portfolio heavily weighted towards high quality (A rated or better), fixed income obligations. Common stocks represent only 3.8% of the portfolio. A breakdown of the investment portfolio, which totaled $762.5 million at December 31, is presented in the table below. The 1979 figures include acquired companies' investment portfolios, which added approximately $242 million to the year-end numbers.

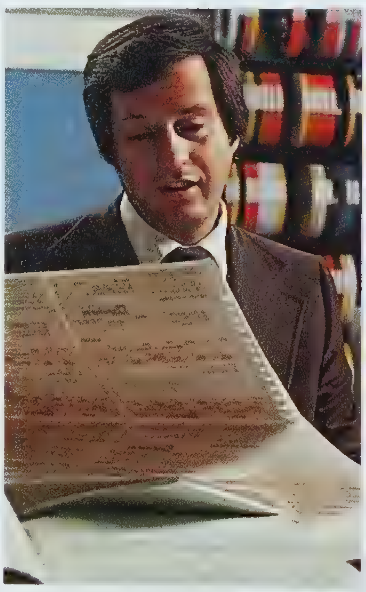
Gerald L. Holm, Executive Vice President, is in charge of acquisitions for Beneficial.

J. Edward Kerwan (left), Senior Vice President in charge of Beneficial's Bencom computer system, consults with Gene U. Rao, Vice President and Technical Support Manager.

Insurance Investment Portfolio at December 31 (in thousands)	1979	% Total	1978	% Total	1977	% Total
U.S. Government Securities	$ 63,085	8.3%	$ 1,659	.4%	$ 3,665	1.2%
Municipal Bonds	274,041	35.9	216,332	52.6	159,537	51.7
Foreign Government and Agency Obligations	41,955	5.5	26,126	6.3	9,830	3.2
Corporate Bonds	151,726	19.9	85,040	20.7	75,839	24.6
Preferred Stocks	53,670	7.0	32,720	8.0	27,686	9.0
Common Stocks	28,750	3.8	17,834	4.3	17,140	5.6
Policy Loans	11,976	1.6	5,279	1.3	4,635	1.5
Mortgages	81,921	10.7	3,709	.9	4,369	1.4
Real Estate	8,750	1.1	934	.2	671	.2
Short-Term Holdings*	43,185	5.7	21,601	5.3	4,928	1.6
Other	3,438	.5	—		—	
	$762,497	100.0%	$411,234	100.0%	$308,300	100.0%

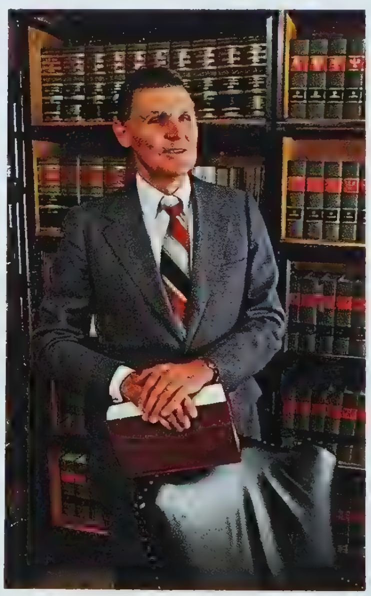
*Chiefly commercial paper and certificates of deposit.

The proportions of several categories of investments change noticeably in 1979, largely because of the inclusion of Western National Life, which has substantial holdings of U.S. Government securities, corporate bonds, and mortgages in its portfolio.



Joseph A. Yankauskas is Vice President, Systems and Programming for Bencom.

As has been the case for several years, BENICO's domestic investment activities again centered on municipal bonds because of the higher net yields that these tax-free obligations provide to both our casualty and life companies. Because of the nature of business written and its effect on the complicated formula for life insurance company taxation, BENICO's life companies' investment income has been taxed at a significantly higher rate than that of traditional ordinary life companies. For example, Central National Life, the flagship life company, is taxed at roughly a 35% incremental rate on investment income. Accordingly, tax free issues are highly attractive to the life companies, as well as for American Centennial, the fully-taxed casualty company. However, selective investments were also made in corporate bonds and preferred and common stocks.



Edgar D. Baumgartner is Vice President and Tax Counsel.

Investment activities for our overseas companies center on high-quality Eurodollar bonds. The largest of our overseas companies, Beneficial International Insurance Company Limited, based in Hamilton, Bermuda, is free of current taxation.

Reflecting the BENICO Group's exceptionally strong cash flow and the fixed income strategy, net investment income has increased at nearly a 39% com-

pound annual rate over the past five years. Average gross investment yield has also increased in recent years and was 6.5% in 1979.

Beneficial's purchase of Southwestern Investment Company (SIC) brings two new, significant companies to the BENICO family, effective December 18, 1979. Western National Life Insurance Company and COMCO Insurance Company, both headquartered in Amarillo, Texas, now join the Group.

With total assets of $250.0 million and 1979 net written premiums of $67.0 million, Western National does a substantial annuity and ordinary life business, as well as writing credit insurance on the loans of SIC and other consumer lenders. The breakdown of 1979 written premiums is approximately as follows: ordinary life—12%, annuities—69%, and credit insurance—19%. Credit insurance written in relation to SIC loans represents only about half of total credit insurance written. Western National had 1979 net earnings of $5.6 million, up 56% from 1978 profits of $3.6 million.

COMCO is a casualty insurance company chiefly engaged in the writing of automobile physical damage and liability coverages. Roughly 44% of premiums written are related to auto loans made by SIC finance offices. COMCO had 1979 net written premiums of $8.9 million and year-end assets of $16.2 million. Net earnings increased 9% to $1.2 million from $1.1 million in 1978.

Several other small companies also joined the BENICO family at year-end. Guaranteed Equity Life Insurance Company, Spiegel's insurance subsidiary, and FTS Life Insurance Company, First Texas Financial Corporation's insurance subsidiary, were both contributed to the Group by means of intercorporate dividends on December 31. Also, Service General Insurance Company, Capital Financial Services' small subsidiary, becomes a member by means of Beneficial's purchase of Capital. Effective October 1, Petroleum State Insurance Company of Baton Rouge, Louisiana was acquired in a small cash transaction. While these companies are each relatively small, taken together they represent 1979 earnings of approximately $3.1 million and year-end assets of $29.6 million.

More detailed financial information and descriptive data on insurance operations than are contained in this annual report are available in the separate report issued by the BENICO Group. Copies of the separate report will soon be available to all interested parties upon written request to Mr. Kenneth J. Kircher, Vice President & Secretary, Beneficial Corporation, P.O. Box 911, Wilmington, Delaware 19899.

Andrew C. Halvorsen, Assistant to the Chairman, is in charge of investor relations for Beneficial Corporation.

On April 6, 1979, after receiving requisite regulatory approvals, First Texas Financial Corporation became a wholly-owned subsidiary of Beneficial Corporation. At the end of 1978, Beneficial held a 24.1% interest in First Texas. Total consideration paid for the company was approximately $92 million in cash. Operating 61 offices in 28 cities, First Texas is the second largest savings and loan holding company in Texas, with total assets in excess of $1.6 billion

First Texas suffered from the adverse conditions that impacted virtually all savings and loans in 1979 as deposit disintermediation and a soaring cost of funds narrowed spreads. The company's weighted cost of funds increased from 7.39% at the end of 1978 to 8.42% at December 31, 1979. Additionally, an unreasonable usury ceiling prevailed in Texas for most of the year, sharply limiting mortgage lending activity.

Nevertheless, despite the difficult operating climate, First Texas' net earnings increased 28% to $13.8 million from $10.8 million in 1978, as income from real estate joint ventures and recoveries on previously foreclosed real estate made major contributions to net income. In addition, profitability benefited from a significant reduction in the provision for loan losses to $1.6 million from $2.8 million in 1978.

Reflecting the fact that Beneficial held only an equity interest in First Texas for the first quarter of the year, as well as the addition of purchase accounting adjustments, First Texas' contribution of $12.6 million to Beneficial Corporation's earnings does not correspond to the enterprise's 1979 results, taken alone as an independent entity.

Included in net income are $3.6 million in non-cash, purchase accounting adjustments. Purchase accounting treatment requires that all assets acquired be marked to market value as of the date of acquisition. Accordingly, despite the fact that First Texas' mortgage portfolio is of excellent quality, it was necessary to take a substantial writedown of the mortgages because their average interest rate was below the national market rate at the date of acquisition. However, this writedown is credited back into income over the average expected life of the mortgages (approximately 8 years) using the rule-of-78's method. For 1979 and the next few years, in decreasing amounts, this non-cash credit adjustment to income will more than offset the $1.3 million annual writeoff of goodwill. Accordingly, purchase accounting adjustments will have a significant positive effect on First Texas' net income again in 1980. In fact, it will be 1986 before the writeoff of goodwill outweighs these credits to income. While management is not in accord with this method of financial reporting, accounting rules dictate that it be utilized. All that can be done is to disclose the purchase accounting adjustment figure on a consistent, regular basis, so that shareholders are kept informed of the non-cash, "bookkeeping" portion of First Texas' reported earnings.

First Texas will carry on an aggressive marketing program in 1980. Several new services will be offered with the continuing goals of increasing marketshare and profitability in the communities served.

Work remains to be done in improving the efficiency and control of operations through greater centralization. Prior to its acquisition by Beneficial, First Texas operated as a rather loosely structured amalgam of ten essentially separate savings and loan associations. Accordingly, while significant centralization has already taken place, further refinements need to be accomplished.

During 1980 First Texas anticipates the opening of several new branches, adding locations in fast growing sections of the state where the institution is not already represented.

Ken E. Dailey is Senior Vice President of First Texas Savings with responsibility for consumer loans. Previously, Mr. Dailey served as a field executive in Beneficial's Gulf Coast Department.

First Texas operates 61 savings and loan branches in Texas under the name "First Texas Savings Association."

Lynn S. Felps is Vice President and Treasurer of First Texas Financial Corporation.

Roger J. Keane (left), Chairman and Chief Executive Officer and J. Michael Cornwall, President and Chief Operating Officer, are the senior officers of First Texas Financial Corporation.

A home under construction at the exclusive Bent Tree development outside Dallas. First Texas is a joint venture partner in the development of Bent Tree.

Spiegel, Inc.

For Spiegel, 1979 was a good year. Net sales and other revenue (including finance charges) increased 15% to $426.8 million from $370.7 million in 1978. Catalog merchandise sales, taken alone, climbed 14% to $311 million, marked by a dramatic 18% rise during the second half. Of most significance, net income increased 35% to $8.1 million from $6.0 million in 1978, as fourth quarter earnings surged 50%.

It is particularly encouraging to note that Spiegel's merchandising results showed substantial improvement in 1979. The company continues to make excellent progress in the on-going campaign to reposition Spiegel as America's fashionable department store in print—keyed to the interests and tastes of the busy working woman.

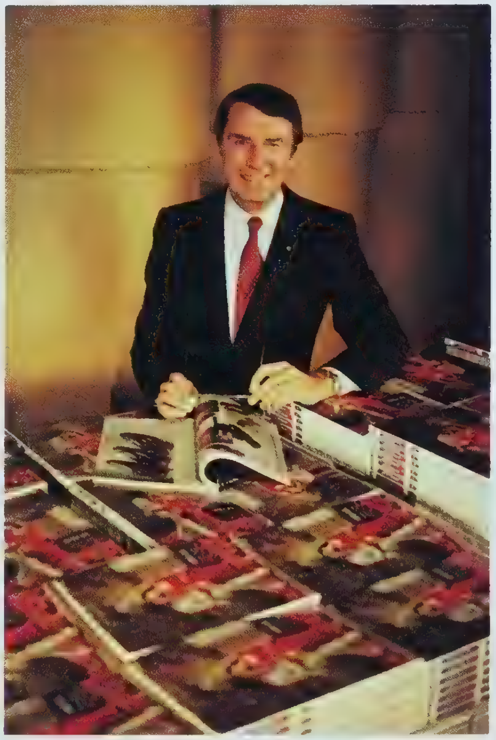
Spiegel's earnings were under some pressure in 1979 because of the sharp increase in the cost of borrowed funds. Spiegel's consolidated interest expense increased 44% last year, since the company now borrows from banks, on its own note, to generate most of its operating funds. Exclusive of Fairfax Family Fund, the company's finance subsidiary which makes consumer loans by mail, consumer receivables of Spiegel's merchandising activities totaled $352.8 million at December 31, a gain of 5% over the prior year. Fairfax, which is financed by advances from Beneficial Corporation, enjoyed exceptional receivable growth, as outstandings climbed 38% to $115.9 million at year-end. Spiegel's consumer credit quality continued to improve, and consolidated net chargeoffs advanced only moderately to $18.1 million from $16.2 million in 1978 despite the significant receivable growth. Also, portfolio delinquency declined. At year-end, Spiegel's consolidated reserve for credit losses totals $31.3 million, or 6.6% of the portfolio.

Further refinements of marketing strategies produced measurable improvement in Spiegel's customer base. A statistical analysis of new customers indicated that the greatest gains were in the strategically targeted middle and upper demographic markets. Strong order patterns for expensive home accessory items and designer fashions corroborated these conclusions.

To further establish an identity in these markets by emphasizing the company's position as a fashion authority, more space was devoted in the 1979 catalogs to editorializing on fashion trends. Updated layouts, design and graphic techniques continued to project the Spiegel image. 1979 saw the beginning of a division of merchandise categories into easy-to-shop departments which will be further refined in 1980.

An acceleration of advertising and public relations campaigns put Spiegel in the top women's magazines across the country where the response was significant. Several major magazines carried exclusive Spiegel stories on rooms designed and furnished entirely with Spiegel merchandise.

Spiegel's customer service department underwent a major reorganization in 1979. Increases in personnel and additions of new equipment allow customer service representatives to provide personalized service to Spiegel's busy customers. Accordingly, telephone sales continue to represent a rapidly growing source of orders, and contributed over 27% of Spiegel's total orders in 1979 compared to 19% in 1978. The installation of an on-line customer history file in late 1979 per-



Henry A. Johnson, Spiegel's Chairman and Chief Executive Officer, scans the first copies of Spiegel's 1980 Spring and Summer catalog as they come off the press.

George R. Evans, Vice Chairman of the Board, and Member, Office of the President, is shown in one of Western Auto's modern distribution centers with a selection of Western Auto products. Merchandising Division companies report to Mr. Evans.

As indicated by the Spiegel catalog product photographs reproduced on these pages, Spiegel is a style leader for young America—America's fashionable department store in print.

mits representatives to access records and respond immediately to customers' questions when they call.

Spiegel's new direction and philosophy produced clear improvement, both qualitative and quantitative, in the company's 1979 results. The ease and energy-efficiency of catalog shopping appears to have strong appeal for the busy American consumer.

Western Auto Supply Company

Western Auto Supply Company's performance remained most disappointing in 1979. A net loss of $1.5 million was recorded compared to net income of $3.0 million in 1978. Results included $5.8 million in net, after-tax special charges to provide for the closing of 116 retail stores and for receivable writedowns. Third quarter results included a $.9 million after-tax gain on the sale of real estate. Finally, fourth quarter merchandising margins were reduced by inventory devaluations recorded at year-end with the taking of actual physical inventories. Before the effect of these items, net income actually rose moderately in 1979, entirely due to an improvement in profits generated from wholesale sales to the dealer store network.

Consolidated net sales and other revenue (including finance revenues related to credit sales) increased 2% to $698.1 million. Merchandise net sales increased 3% to $627.5 million, as wholesale sales climbed 5% to $450.4 million and retail sales fell 3% to $177.1 million.

The increase in wholesale sales is encouraging in light of the fact that the number of Western Auto associate stores decreased from 3,595 to 3,209 during 1979. This decrease largely reflects Western's policy of setting higher standards for new associate dealers. The average investment in a new associate store in 1979 increased 33% over 1978 to nearly $67,000. Western Auto continues to develop various aids to assist associate store owners in improving their profitability. This phase of Western Auto's operations is profitable, and while still not earning an acceptable return on capital, is basically healthy.

Conversely, Western's retail store operations continue unprofitable. Western now operates 302 retail stores, down substantially from the 1976 level of 520. Generally located in or near urban areas, the retail store system encounters a significantly higher level of competition than the associate stores, which are generally located in more rural areas, often in quite small trade areas where the stores exercise a powerful market presence. The retail stores have made only minor, disappointing progress in their efforts to refine their merchandising strategies to meet these challenges.

The retail stores' continued poor performance and the less than satisfactory growth trends in the wholesale operation have prompted a major restructuring of top management. In February 1980, John T. Lundegard joined Western Auto as Chairman of the Board and Chief Executive Officer. Lundegard brings 25 years of diversified retailing experience to Western, having served with Dayton Hudson, The May Company, and Gibson's, Inc. During his tenure with May as Chief Executive of the Venture Stores division, he led a significant turnaround in the performance of that previously troubled unit. He is joined by Robert W. McFadden, who in December became Executive Vice President and Chief Operating Officer of Western. McFadden had previously served as Chairman of Midland, and joins West-

John T. Lundegard joined Western Auto as Chairman of the Board and Chief Executive Officer in February, 1980. Visiting a Western Auto retail store in Kansas City, he discusses the success of Western Auto's shock absorber line with an employee.

ern Auto with the return of Midland to the Western Auto group. The new top management team has reorganized the management structure of Western Auto to effect a turnaround in performance.

Western's retail store product line centers on automotive service, accessories and parts, lawn care products, and bicycles. Wholesale sales encompass a much broader array including, in addition to the above, electronic equipment, home appliances, furniture, toys, sporting goods, housewares, and hardware. Approximately 70% of sales are made under Western's exclusive brand names which are protected by trademarks.

Eva Gabor International, Western's wig importing subsidiary, contributed net sales of $7.2 million and net income of $114,000 to Western's 1979 results compared to sales and earnings of $7.0 million and $165,000, respectively, in 1978.

As discussed previously in this report, Western contributed its subsidiary, Western Acceptance Company (WAC), to Beneficial Corporation on December 31, 1979 by means of an upstream dividend. WAC is a finance subsidiary which purchases customer accounts receivable generated by the sales of Western's retail and associate stores. WAC had net earnings of approximately $4 million in 1979.

Midland International Corporation

Midland is an international importing and marketing organization featuring chiefly televisions, citizens band (CB) radios, and automotive sound products. Products are imported chiefly from the Far East.

Reflecting the collapse of the CB radio popularity of 1975-76, Midland recorded another net loss in 1979 as it had in both 1977 and 1978. The 1979 net loss of $3.1 million is less than the 1978 loss, but brings the cumulative three-year deficit to $9.8 million. However, in perspective, it should be noted that the company recorded net income of $23.2 million during the 1975-76 bonanza period. Sales for 1979 fell 16% to $52.0 million.

Midland is now in a process of contraction, as it shrinks overhead to meet the remaining level of demand for its product lines. Effective January 1, 1980 ownership of Midland was transferred to Western Auto Supply Company where it will operate as a subsidiary, as it had until it was spun out as a separate entity in 1977. Henceforth, Midland's financial results will be consolidated with those of Western Auto.

Directors Cullen, Gurney and Paul Retire from the Board

In early 1980, three directors who had provided Beneficial Corporation with a collective total of over 130 years of meritorious, valued service elected to retire from active participation in affairs of the Board of Directors. Directors Thomas W. Cullen, J. Thomas Gurney, and DeWitt J. Paul now become Directors Emeritus.

Thomas W. Cullen, 81 years of age, served Beneficial for 60 years, rising to the presidency of an affiliated holding company before retiring from active employment in 1966, but remaining a Director. J. Thomas Gurney, 79, an attorney, provided valuable counsel as a member of an outside law firm, and served as a director of affiliated companies since the late 1920's before becoming a Director of Beneficial Corporation in 1959. DeWitt J. Paul, 77, joined Beneficial in 1930. He rose through the public relations (now government relations) department to become Chairman of the Board and Chief Executive Officer, retiring at the end of 1970.

The Board of Directors acknowledges the significant contributions of each of these gentlemen to the growth and development of Beneficial Corporation. Management and the Board wish to express their sincere appreciation to Messrs. Cullen, Gurney and Paul for their many years of loyal and meritorious service.

Beneficial's Report to the Younger Generation

"Susan, Jon and the Company Without a Factory," the colorful 48-page Beneficial report to the younger generation, has received substantial favorable comment in hundreds of newspaper articles and letters. More than 100,000 copies have been furnished in response to over 30,000 requests from business leaders, entire school systems and individuals in the U.S., Canada and abroad.

Reactions have been most enthusiastic, including educators, bankers, businessmen and columnists, one of whom commented that "a generation of American people . . . has been nurtured on a diet of diatribe depicting business as bad. Beneficial Corporation is to be commended for this ambitious attempt to communicate with our young people about the positive and wholesome aspects of the American free enterprise system. It is good to see a constructive, informative approach to the functions of a business corporation in our society."

The report has been selected to receive the George Washington Honor Medal Award from Freedoms Foundation of Valley Forge, Pennsylvania for its contribution to economic education in America. It has also been awarded a Certificate of Special Merit by the Printing Industries of Metropolitan New York (PIMNY) selected from over 3,200 examples.

Copies are available on request from Mr. Kenneth J. Kircher, Beneficial Corporation, Dept. KO, P.O. Box 911, Wilmington, DE 19899.

Annual Report Earns Awards

Beneficial Corporation's 1978 Annual Report received the Financial World Silver Trophy as best annual report in the Financial Services and Finance category. In addition, the report was selected as runner-up for the gold medal as best annual report overall. Financial World, a leading semi-monthly financial magazine, publishes the winners, selected by an independent board of judges, each year in its October issue.

Beneficial Management Corporation
Executive Committee

1. Richard A. Wagner
President and Chief Executive Officer and Chairman of the Executive Committee

2. Finn M. W. Caspersen

3. George R. Evans
Chairman

4. Gerald L. Holm
Executive Vice President

5. R. Donald Quackenbush
Executive Vice President

6. Robert A. Tucker

7. Gordon L. Wadmond
Executive Vice President

Beneficial Corporation
Board of Directors

1. Cecil M. Benadom(1,3)
Retired, former President of Beneficial Corporation

2. Charles W. Bower(1,2)
Senior Vice President and Treasurer

3. Robert C. Cannada(3,4)
Attorney at Law, Butler, Snow, O'Mara, Stevens & Company, Jackson, Mississippi

4. Elbert N. Carvel
Vice Chairman of the Board of Trustees of the University of Delaware; Chairman of the Board of Peoples Bank and Trust Company, a subsidiary

5. Finn M. W. Caspersen(1,2)
Chairman of the Board of Directors and Chief Executive Officer

6. Freda R. Caspersen
Chairman of Board of Directors of Westby Corporation, real estate investments, Wilmington, Delaware

7. George R. Evans(1,2)
Member of the Office of the President and Vice Chairman of Board of Directors; Chairman of Board of Directors of Beneficial Management Corporation, a subsidiary

8. Gerald L. Holm
Executive Vice President of Beneficial Management Corporation, a subsidiary

9. R. Donald Quackenbush
Chairman of Board of Directors, Beneficial Insurance Group

10. Susan J. Ross(3)
Attorney at Law, Natelson and Ross, Taos, New Mexico

11. Robert A. Tucker(1,2)
Member of the Office of the President, First Vice President and Chief Financial Officer

12. E. Norman Veasey(4)
Attorney at Law, Richards, Layton & Finger, Wilmington, Delaware

13. Richard A. Wagner
President and Chief Executive Officer of Beneficial Management Corporation, a subsidiary

14. Arthur T. Ward, Jr.(4)
Medical Doctor and businessman, Baltimore, Maryland

15. Charles H. Watts, II(1,3,4)
Educational and business consultant, McLean, Virginia

16. K. Martin Worthy(4)
Attorney at Law, Hamel, Park, McCabe & Saunders, Washington, D.C

17. Thomas W. Cullen
Director Emeritus

18. J. Thomas Gurney
Director Emeritus

19. DeWitt J. Paul
Director Emeritus

Modie J. Spiegel
Director Emeritus (not shown)

William E. Thompson
Director Emeritus (not shown)

Ralph B. Williams
Director Emeritus (not shown)

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20. Kenneth J. Kircher
Secretary to the Board

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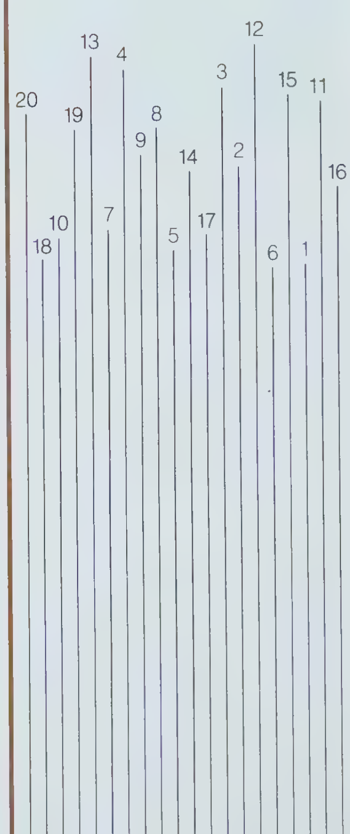
(1) Member of Executive Committee (Finn M.W. Caspersen, Chairman)

(2) Member of Finance Committee (Robert A. Tucker, Chairman)

(3) Member of Audit Committee (Charles H. Watts, II, Chairman)

(4) Member of Compensation Committee (K. Martin Worthy, Chairman)



Financial Section

Beneficial Corporation and Consolidated Subsidiaries
Balance Sheet

(in millions) December 31	1979	1978
Assets		
Cash (Note 3)	$ 52.5	$ 38.3
Finance Receivables (Note 4)	4,979.4	3,578.2
Less Unearned Finance Charges	(715.4)	(562.8)
Principal of Finance Receivables	4,264.0	3,015.4
Less: Reserve for Credit Losses	(203.7)	(147.8)
Insurance Policy and Claim Reserves Applicable to Finance Receivables	(154.3)	(126.3)
Net Finance Receivables	3,906.0	2,741.3
Net Receivables Acquired from Western Auto (Note 4)	165.7	—
Acquired Assets to be Divested (Note 18)	188.5	—
Investments—Securities (Note 5)	857.8	463.9
Receivable from Merchandising Division (Note 6 and Page 59)	102.0	77.1
Equity in Net Assets of Non-Consolidated Subsidiaries		
Savings and Loan Division (Note 18 and Page 52)	55.7	10.5
Merchandising Division (Page 59)	271.3	343.8
Other	6.4	5.7
	333.4	360.0
Property and Equipment (at cost, less accumulated depreciation of $34.0 and $22.3)	67.0	39.0
Other Assets (Note 7)	358.4	161.7
Total	$6,031.3	$3,881.3
Liabilities and Shareholders' Equity		
Short-Term Debt (Note 8)	$ 977.5	$ 520.0
Deposits Payable	94.5	16.2
Accounts Payable and Accrued Liabilities (Note 9)	242.4	140.4
Insurance Policy and Claim Reserves (applicable to risks other than finance receivables)	358.7	108.2
Long-Term Debt (Note 10)	3,324.7	2,210.0
Total Liabilities	4,997.8	2,994.8
Redeemable Preferred Stock (Note 12)	103.0	—
Other Preferred Stock (Note 13)	116.6	116.9
Common Stock (60.0 shares authorized, 22.1 and 22.0 shares issued and outstanding) (Note 13)	22.1	22.0
Capital Surplus	61.8	61.8
Net Unrealized Loss on Equity Securities (Note 5)	(13.2)	(7.1)
Retained Earnings (Note 10)	743.2	692.9
Total	$6,031.3	$3,881.3

See Notes to Financial Statements.

Beneficial Corporation and Consolidated Subsidiaries
Statement of Income

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Finance Division							
Revenue	$271.1	$209.9	$982.9	$769.5	$640.4	$ 536.5	$460.3
Expenses							
Interest (Notes 1f, 19, and 20)	76.8	46.6	251.0	169.9	132.2	103.1	94.2
Less Interest Income from Non-Consolidated Subsidiaries	(2.3)	(1.5)	(7.2)	(7.5)	(8.1)	(7.5)	(11.5)
Interest (net)	74.5	45.1	243.8	162.4	124.1	95.6	82.7
Salaries and Employee Benefits	45.3	34.5	164.6	132.5	115.0	99.7	89.8
Provision for Credit Losses (after offsetting recoveries)	37.7	24.9	102.4	70.9	65.7	60.4	54.8
Insurance Benefits Provided	45.8	26.3	136.0	86.7	70.4	56.9	42.3
Other	48.4	39.7	179.8	140.7	108.2	86.7	74.6
Total	251.7	170.5	826.6	593.2	483.4	399.3	344.2
Operating Income	19.4	39.4	156.3	176.3	157.0	137.2	116.1
Foreign Exchange Gain (Loss) (Notes 1e and 11)	(1.0)	.2	.6	(2.2)	(3.3)	(4.7)	(6.1)
Income Before Income Taxes	18.4	39.6	156.9	174.1	153.7	132.5	110.0
Provision For Income Taxes (Note 15)	6.5	16.4	57.3	72.6	67.3	59.5	51.7
Income From Finance Division	11.9	23.2	99.6	101.5	86.4	73.0	58.3
Income From Savings and Loan Division (Note 18)	4.3	1.4	12.6	2.5	—	—	—
Income From Merchandising Division (Page 60)	1.4	1.5	3.5	4.3	7.8	35.8	22.8
Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries (Note 1f)	(3.9)	(2.7)	(14.6)	(10.0)	(8.5)	(8.4)	(7.7)
Net Income	$ 13.7	$ 23.4	$101.1	$ 98.3	$ 85.7	$ 100.4	$ 73.4
Earnings Per Common Share (Note 17)							
Earnings Available for Common Stock	$ 11.1	$ 22.0	$ 94.3	$ 92.6	$ 79.4	$ 92.5	$ 63.9
Average Outstanding Shares	22.2	22.1	22.2	22.1	21.8	20.4	19.1
Net Income	$ .49	$ 1.00	$ 4.24	$ 4.19	$ 3.64	$ 4.52	$ 3.34
Dividends Per Common Share	$ .50	$ .45	$ 1.95	$ 1.70	$ 1.60	$1.4375	$ 1.25

See Notes to Financial Statements.

Significant changes in the components of revenue and expense are shown in the table below:

	Increase (Decrease)			
(in millions)	1979 over 1978		1978 over 1977	
Consumer Finance Revenue	$133.9	22%	$88.3	17%
Insurance Premiums Earned	68.5	46	34.7	30
Insurance Investment Income (net)	9.8	41	5.7	31
Interest Expense (net)	81.4	50	38.3	31
Salaries and Employee Benefits	32.1	24	17.5	15
Provision for Credit Losses	31.5	44	5.2	8
Insurance Benefits Provided	49.3	57	16.3	23
Advertising	4.3	24	3.9	28
Insurance Commissions	10.5	44	7.5	45
Rent	3.7	20	1.7	11

Acquisitions of the consumer finance offices of Capital Financial Services Inc. and the consumer finance and insurance operations of Southwestern Investment Company in mid-December had little effect on 1979 results.

The increase in consumer finance revenue is almost entirely attributable to average finance receivables that were 24% higher in 1979 and 18% higher in 1978 compared with the preceding year. Gains in insurance premiums earned came from both affiliated and non-affiliated sources. About one-third of the gain was in property and liability lines in both years. Increased investment income in 1979 and 1978 results from higher levels of investment at increased rates of return, with 1979 also benefiting from $1.6 million in net capital gains.

Skyrocketing short-term as well as higher long-term interest rates and the additional borrowings needed for expanded consumer finance receivables caused the substantial increase in interest expense for 1979. About 75% of the increase in 1979 was due to additional borrowings as contrasted with 70% in 1978 with the remainder due to higher rates. The overall interest rate moved up from 7.39% in 1977 to 7.93% in 1978 and to 8.89% in 1979.

Salaries and Employee Benefits increased as both rapid receivables growth for consumer finance and growing volumes of insurance business required additional employees and higher expenditures. Salary levels and the cost of employee benefits rose as inflationary pressures continued.

The increases in Provision for Credit Losses result from higher charge-offs of receivables and from additions to the Reserve for Credit Losses due to the higher levels of finance receivables. Charge-offs as a percentage of finance receivables rose to 1.87% in 1979 after declining to 1.57% in 1978 from 1.74% in 1977. Charge-offs accounted for $22.1 million in 1979 and $2.5 million in 1978 of the increases in Provision for Credit Losses of $31.5 million and $5.2 million in the respective years.

Insurance loss ratios increased in 1979 and, along with higher reserve amounts required by the growing volume and strengthening of reserves for certain international business, caused Insurance Benefits Provided to rise at a faster rate than the related premium income. In 1978 the increase was less rapid because of more favorable loss experience.

Advertising reflected the increased costs of entering additional markets, the expanded use of radio, television, and print media, and higher rates.

Commissions paid for larger amounts of non-affiliated reinsurance business caused the increases in Insurance Commissions Paid.

Increases in Rent Expense resulted from both the larger number of consumer finance offices and higher occupancy costs caused by price escalations.

Other Expenses increased as a result of growth in both consumer finance and insurance operations coupled with the rising cost of engaging in business.

The year 1979 showed a foreign exchange gain of $.6 million as compared with losses of $2.2 million in 1978 and $3.3 million in 1977. These fluctuations reflected changes in the value of the Canadian dollar and in reduced foreign currency exposure.

Finance Division income for 1979 benefited almost $8 million over 1978 from a lower effective income tax rate. Note 15, Page 43 explains changes in Provision for Income Taxes.

Finance Division income for 1979 declined $1.9 million although improved underwriting results and higher investment income resulted in a $9.1 million gain for the Insurance Group. Consumer Finance Group income decreased $9.4 million in 1979 as compared with a $4.7 million gain in 1978. Of the $15.1 million 1978 increase in Finance Division income, the Insurance Group was responsible for about $11 million.

Further information on the Finance Division is in the Finance section on Page 7, the Consumer Finance section on Page 12, and the BENICO section on Page 18.

Management's Discussion and Analysis of the Statement of Income for the Savings and Loan Division is on Page 54 and for the Merchandising Division is on Page 61.

Beneficial Corporation and Consolidated Subsidiaries
Statement of Retained Earnings

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Balance, Beginning of Period	$743.8	$680.2	$692.9	$637.5	$592.8	$529.8	$489.8
Net Income	13.7	23.4	101.1	98.3	85.7	100.4	73.4
Total	757.5	703.6	794.0	735.8	678.5	630.2	563.2
Dividends on Capital Stock							
Preferred	3.4	.9	8.2	5.8	6.4	7.4	9.6
Common	10.9	9.8	42.6	37.1	34.6	30.0	23.8
Total Dividends	14.3	10.7	50.8	42.9	41.0	37.4	33.4
Balance, End of Period	$743.2	$692.9	$743.2	$692.9	$637.5	$592.8	$529.8

Statement of Capital Surplus

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Balance, Beginning of Period	$62.2	$61.7	$61.8	$61.3	$49.0	$40.2	$39.7
Excess of stated value of $5.50 Dividend Cumulative Convertible Preferred Stock over par value of Common Stock issued upon conversion	—	.1	.2	.3	.4	8.6	.1
Excess of stated value of $4.30 Dividend Cumulative Preferred Stock over par value of Common Stock issued upon conversion	—	—	—	—	11.6	—	—
Miscellaneous	(.4)	—	(.2)	.2	.3	.2	.4
Balance, End of Period	$61.8	$61.8	$61.8	$61.8	$61.3	$49.0	$40.2

See Notes to Financial Statements.

Beneficial Corporation and Consolidated Subsidiaries
Statement of Changes in Financial Position

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Source of Funds							
Operations							
Net Income	$ 13.7	$ 23.4	$ 101.1	$ 98.3	$ 85.7	$ 100.4	$ 73.4
Non-cash charges (credits) to income							
Provision for credit losses (before offsetting recoveries)	39.8	27.2	110.9	78.8	72.9	66.8	60.2
Increase (decrease) in unpaid expenses	(4.5)	(9.3)	20.8	11.3	9.6	(1.7)	3.5
Increase (decrease) in insurance reserves	13.4	19.1	58.8	32.9	59.9	26.5	29.1
Depreciation, amortization, and other	3.9	2.1	13.4	8.1	6.8	6.3	6.4
Unrealized foreign exchange loss (gain)	2.5	(.3)	(1.7)	1.7	(3.8)	1.8	3.7
Deferred income taxes	6.8	1.3	7.8	2.6	5.9	(1.4)	(3.9)
Undistributed net loss (income) of non-consolidated subsidiaries	(6.1)	1.3	(17.1)	(2.4)	(4.0)	(11.7)	(14.9)
Funds provided by operations	69.5	64.8	294.0	231.3	233.0	187.0	157.5
Collections of principal of finance receivables	464.8	358.4	1,736.4	1,423.3	1,184.6	1,014.2	900.3
Increase (decrease) in short-term debt	80.6	217.9	160.8	106.2	112.4	(7.6)	19.2
Increase (decrease) in accounts payable	3.3	10.8	29.1	23.3	16.3	(14.6)	40.9
Redeemable preferred stock issued	103.0	—	103.0	—	—	—	—
Long-term debt issued	532.8	4.0	1,068.6	392.1	494.9	290.5	39.4
Other	(56.1)	(22.6)	(123.6)	(52.0)	(34.0)	2.4	12.5
	$1,197.9	$633.3	$3,268.3	$2,124.2	$2,007.2	$1,471.9	$1,169.8
Application of Funds							
New funds lent to customers	$ 764.8	$604.5	$2,443.2	$1,942.2	$1,488.3	$1,253.4	$ 975.8
Principal of finance receivables purchased	27.6	5.2	133.7	36.7	203.0	90.5	47.5
Increase (decrease) in investments—securities (at carrying amount)	3.0	3.9	129.1	106.4	105.5	(24.7)	127.5
Long-term debt paid	192.4	—	231.7	36.0	120.9	155.0	41.9
Increase (decrease) in advances to Merchandising Division	11.5	6.6	24.9	(61.2)	48.5	(39.7)	(56.3)
Investment in Savings and Loan Division	—	2.4	70.6	21.2	—	—	—
Capital and Southwestern acquisitions (Note 18)	184.3	—	184.3	—	—	—	—
Dividends on capital stock	14.3	10.7	50.8	42.9	41.0	37.4	33.4
	$1,197.9	$633.3	$3,268.3	$2,124.2	$2,007.2	$1,471.9	$1,169.8

See Notes to Financial Statements.

1. Significant Accounting Principles and Practices

a) Basis of Consolidation. The consolidated financial statements include, after inter-company eliminations, the accounts of all significant subsidiaries except those comprising the Savings and Loan Division and the Merchandising Division, which are included on the equity method. Financial statements for the Savings and Loan Division and for the Merchandising Division are presented elsewhere in this report.

Certain prior year amounts have been reclassified to conform to 1979 presentation.

b) Finance Operations. The financial statements, except for consumer finance revenue, are prepared on the accrual basis.

Unearned finance charges generally are taken into income as earned and collected under the Rule of 78ths method. Income from interest-bearing direct cash loans is taken into income as collected.

Receivables considered uncollectible or to require disproportionate collection costs are charged monthly to the Reserve for Credit Losses, but collection efforts generally are continued.

c) Insurance Operations. Insurance subsidiaries are engaged primarily in credit life, credit accident and health, and property and liability insurance.

Insurance policy acquisition costs are deferred and amortized over the lives of the policies in relation to earned premium.

Premiums on credit life and credit accident and health insurance are generally taken into income as earned under the Rule of 78ths. Premiums on property and liability insurance are taken into income on the straight-line method.

d) Valuation of Investments—Securities. Debt securities are carried at amortized cost. Equity securities (substantially all marketable) generally are carried at market value. The carrying amount of marketable equity securities is adjusted from cost to market value through a valuation allowance, the change in which is not reflected in Net Income but directly in Shareholders' Equity. (See Note 5.)

e) Translation of Foreign Currencies. Assets, including immaterial amounts of property and equipment and related accumulated depreciation, and liabilities in foreign currencies are translated to U.S. dollar equivalents at the market rates at each Balance Sheet date. Translation of foreign operating results is at the average market rates for each period covered by the Statement of Income. The net gain or loss is credited or charged to income.

f) Interest Expense, after Income Taxes, Related to Investment in Subsidiaries. Interest expense related to investment in subsidiaries which are not a part of the Finance Division is removed from interest expense of the Finance Division and is shown, net of taxes, as a separate item. Similarly, interest expense related to the investment in the Insurance Group has been removed from interest expense of the Consumer Finance Group (page 50), but remains in expense of the Finance Division (see Note 19).

The aggregate expense reflects the cost of funds used to acquire various subsidiaries as well as interest on funds borrowed by the parent company to pay dividends applicable to those subsidiaries to the extent that the subsidiaries have not paid dividends at the same payout ratio as the parent company.

This presentation results in a more meaningful measure of profitability of the Consumer Finance Group and the Finance Division, as such interest expense is a common expense of the Company rather than applying to a particular division.

g) Amortization of Excess Cost of Net Assets Acquired. Excess Cost for acquisitions before November 1, 1970 is not being amortized. For significant acquisitions subsequent to that date, Excess Cost is being amortized over 40 years.

2. Transfers of Subsidiaries

At December 31, 1979 First Texas distributed the stock of FTS Life Insurance Company, a wholly-owned subsidiary, as a dividend in the amount of $2.3 million to Beneficial Corporation. The operations of FTS Life for the year 1979 are included in the statement of income of the Savings and Loan Division. Its assets and liabilities at December 31, 1979 are included in the consolidated balance sheet.

At December 31, 1979 Spiegel distributed the stock of Guaranteed Equity Life Insurance Company, a wholly-owned subsidiary, as a dividend in the amount of $7.8 million to Beneficial Corporation. The operations of Guaranteed Equity Life for the year 1979 are included in the statement of income of the Merchandising Division. Its assets and liabilities at December 31, 1979 are included in the consolidated balance sheet.

At December 31, 1979 Western Auto distributed the stock of Western Acceptance Company, a wholly-owned subsidiary engaged in the purchase of customer receivables generated by Western Auto retail stores and associate stores, as a dividend in the amount of $68.1 million to Beneficial Corporation. Under an agreement between Western Auto and Western Acceptance, Western Auto remains liable for losses on customer receivables and guarantees Western Acceptance minimum earnings before income taxes and fixed charges on debt of at least 150% of such fixed charges. The operations of Western Acceptance for the year 1979 are included in the statement of income of the Merchandising Division. Its assets and liabilities at December 31, 1979 are included in the consolidated balance sheet. (See Note 4.)

On January 1, 1980 Beneficial Corporation contributed the stock of Midland International Corporation, a wholly-owned subsidiary, to Western Auto. Midland continues to be part of the Merchandising Division.

3. Cash

Cash at December 31 consists of the following:

(in millions)	1979	1978
On Hand and Unrestricted Deposits	$27.1	$ 3.7
Compensating Balances	25.4	34.6
Total Cash	$52.5	$38.3

Compensating balance requirements in 1979 and 1978 generally have been the greater of 10% of the bank line of credit or 20% of actual borrowings. Effective December 31, 1979 such requirements generally are 7% compensating balances on one-half the bank line of credit with a ½% per annum fee on the remainder.

4. Finance Receivables and Receivables Purchased From Western Auto

The amount of and maximum term in months (from origination) of Finance Receivables at December 31 are as follows:

	Amount		Maximum Term	
(in millions)	1979	1978	1979	1978
			(months)	
Direct Cash Loans:				
Dollar-cost	$2,857	$2,288	180	180
Interest-bearing	1,377	911	180	180
All Loans	4,234	3,199		
Sales Finance Contracts	553	295	60	60
Bank Credit Card Receivables	92	65	36	36
Lease Receivables	100	19	300	84
Total Finance Receivables	$4,979	$3,578		

Scheduled contractual payments of Finance Receivables, excluding bank credit card receivables, to be received after December 31, 1979 are as follows:

	1980	1981	1982	1983	Beyond
Direct Cash Loans:					
Dollar-cost	43%	32%	16%	6%	3%
Interest-bearing	27	21	18	16	18
All Loans	37	28	17	9	9
Sales Finance Contracts	65	24	7	2	2
Lease Receivables	13	12	12	11	52
Total	40	27	16	8	9

The above tabulation of scheduled contractual payments is not a forecast of collections. Collections of principal of Finance Receivables amounted to $1,736.4 million for 1979 and $1,423.3 million for 1978.

The percentage of monthly cash principal collections to average monthly balances was 4.37% for 1979 and 4.43% for 1978.

The Company (through Western Acceptance) purchases receivables from Western Auto with recourse. The reserve for credit losses applicable to these receivables is maintained by Western Auto. The accounts had a weighted average remaining maturity of 10 months at December 31, 1979.

5. Investments—Securities

These are held principally by the Insurance Group as long-term investments. Equity securities had a cost of $99.6 million at December 31, 1979 and $57.8 million at December 31, 1978.

Investments—Securities at December 31 consist of the following:

	1979		1978	
(in millions)	Carrying Amount	Market Value	Carrying Amount	Market Value
Debt Securities:				
Certificates of Deposit	$ 60.3	$ 60.3	$ 12.1	$ 12.1
Commercial Paper	27.1	27.1	19.3	19.3
U.S. Government Obligations	80.5	80.3	3.8	3.6
Foreign Government and Agency Obligations	72.3	67.4	64.8	63.8
Municipal Bonds	276.2	238.7	218.4	208.8
Convertible Bonds	18.3	16.0	21.6	20.4
Non-Convertible Bonds	142.8	130.5	64.2	59.3
Other	93.9	93.9	9.0	9.0
	771.4	714.2	413.2	396.3
Equity Securities:				
Preferred Stocks	55.5	55.5	32.1	32.1
Convertible Preferred Stocks	2.1	2.1	.7	.7
Common Stocks	28.8	28.8	17.9	17.9
	86.4	86.4	50.7	50.7
Total Investments—Securities	$857.8	$800.6	$463.9	$447.0

Net Unrealized Loss on Equity Securities at December 31 is as follows:

(in millions)	1979	1978
Unrealized Losses	$13.6	$7.5
Less Unrealized Gains	(.4)	(.4)
Net Unrealized Loss	$13.2	$7.1

Realized gains and losses, determined on the specific cost identification basis, are not material.

6. Receivable from Merchandising Division

At December 31, 1979 and 1978, $102.0 million and $67.7 million of these amounts are receivable from Fairfax Family Fund, Inc., a consumer loan subsidiary of Spiegel, Inc.

7. Other Assets

At December 31 these consist of the following:

(in millions)	1979	1978
Accrued Interest on Investments	$ 16.7	$ 10.6
Deferred Income Tax Benefits	18.4	7.6
Excess Cost of Net Assets Acquired	141.1	41.3
Insurance Premiums Receivable	45.3	35.9
Unamortized Insurance Policy Acquisition Costs	61.9	26.5
Unamortized Long-Term Debt Expense	19.8	13.9
Other	55.2	25.9
Total Other Assets	$358.4	$161.7

The remaining Excess Cost of Net Assets Acquired being amortized at December 31, 1979 and 1978 is $114.4 million and $14.6 million.

8. Short-Term Debt

At December 31 such debt consists of the following:

(in millions)	1979	1978
Banks:		
Line of Credit Loans	$319.7	$190.1
Demand Master Note	28.0	9.8
	347.7	199.9
Commercial Paper	582.2	279.0
Total Short-Term Notes	929.9	478.9
Employee Thrift Accounts	47.6	41.1
Total Short-Term Debt	$977.5	$520.0

Short-Term Notes at December 31, 1979 include a total of $203.0 million issued by Capital Financial Services Inc., Southwestern Investment Company, and Western Acceptance Company.

Data for Short-Term Notes for the years ended December 31 are:

(in millions)	1979	1978
Maximum amount at any month end	$929.9	$478.9
Daily average amount	566.6	254.7
Average actual interest rate:		
U.S. dollar borrowings	12.14%	8.44%
Foreign currency borrowings	11.47	9.07
Overall	11.96	8.71

The average interest rates on Short-Term Notes outstanding at December 31, without giving effect to compensating balances at banks, and maturities were as follows:

	1979	1978
Average Interest Rates:		
Banks:		
U.S. dollars	15.43%	11.89%
Foreign currencies	12.83	8.68
Overall	14.64	10.72
Demand Master Note	12.25	10.25
Commercial Paper:		
U.S. dollars	13.46	10.32
Foreign currencies	12.08	10.37
Overall	13.23	10.33
Maturities (in days):		
Banks	1-365	1-365
Commercial Paper	15-180	15-210

At December 31 bank lines of credit are as follows:

(in millions)	1979	1978
Loans	$ 319.7	$190.1
Unused Portion	784.2	299.0
Total Bank Lines	$1,103.9	$489.1

9. Accounts Payable and Accrued Liabilities

At December 31 these consist of the following:

(in millions)	1979	1978
Accrued Interest	$ 65.6	$ 42.3
Dealer Reserves	24.2	16.2
Income Taxes Payable	15.9	2.7
Insurance Premiums Payable	65.7	46.5
Other	71.0	32.7
Total Accounts Payable and Accrued Liabilities	$242.4	$140.4

10. Long-Term Debt and Restrictions on Use of Surplus

Long-term debt outstanding at December 31 is as follows:

(in millions)	1979	1978
By Currency:		
United States	$3,090.1	$2,014.3
Australian	67.7	41.9
British	—	4.1
Canadian	154.1	121.8
New Zealand	2.0	—
Swiss	—	6.2
West German	27.2	23.0
Total	3,341.1	2,211.3
Unamortized Discount	(16.4)	(1.3)
Total Long-Term Debt	$3,324.7	$2,210.0

(in millions)	1979	1978
By Maturity:		
1979	$ —	$ 195.6
1980	170.8	130.6
1981	114.0	81.2
1982	82.0	8.9
1983	197.9	151.1
1984	582.2	152.7
1985-89	1,195.8	507.6
1990-94	357.9	343.1
1995-99	190.5	190.5
2000-08	450.0	450.0
Total	3,341.1	2,211.3
Unamortized Discount	(16.4)	(1.3)
Total Long-Term Debt	$3,324.7	$2,210.0
Subordinated Debt Included Above	$161.4	$100.0
Weighted Average Annual Interest Rate on Debt Outstanding at End of Year	8.44%	7.56%

Long-Term Debt at December 31, 1979 includes $560.0 million for which the holder may elect payment prior to maturity. Such debt is shown above in the earliest year it could become payable. The average life of all the Company's long-term debt is 11.1 years assuming holders tender at the earliest date, and 16.1 years if all debt is held to ultimate maturity.

Certain of the indentures and agreements relating to the Company's long-term debt contain covenants restricting payment of dividends (other than stock dividends) and the purchase and retirement of the Company's capital stock. At December 31, 1979 and 1978 the amounts of all unrestricted surplus (Capital Surplus and Retained Earnings), under the most restrictive of these covenants, are approximately $650 million and $240 million.

11. Foreign Operations

Significant data at December 31 regarding amounts denominated in foreign currencies and foreign operations for the years then ended, after translation to U.S. dollar equivalents, are:

(in millions)	1979	1978
Assets	$596.8	$489.2
Liabilities	534.7	391.9
Net Assets	$ 62.1	$ 97.3
Income before Foreign Exchange Gain (Loss):		
Before Income Taxes	$26.3	$31.2
% of Finance Division total	16.8%	17.7%
After Income Taxes	$16.4	$20.2
% of Finance Division total	16.6%	22.3%

12. Redeemable Preferred Stock

The Company has 500,000 authorized shares of no par value preferred stock issuable in series, 125,000 of which are the 9.25% Series. In November 1979 the Company issued 103,000 of 9.25% Series Preferred Stock at $1,000 per share; all are outstanding at December 31. Dividends, which are cumulative, are payable quarterly at $23.125 per share. Beginning November 15, 1985 and annually thereafter through November 15, 1999, the Company is required to redeem 8,333 shares of the 9.25% Series Preferred Stock through a sinking fund at a price of $1,000 per share plus accrued dividends. Sinking fund payments are cumulative. The Company may, at its option, increase the sinking fund payment by 8,333 shares annually up to an aggregate of 43,750 shares. Unless dividend and sinking fund payments on this Preferred Stock are current, the Company may not pay dividends or make other distributions or purchase, redeem, or retire any issues of stock junior to this issue. The Company has the right to redeem the 9.25% Series Preferred Stock beginning November 15, 1989 at an initial redemption price of $1,043.82 per share plus accrued dividends and at a price declining ratably thereafter to $1,000 per share.

Upon the arrearage of six quarterly dividends on any series of the Preferred Stock the holders of the 9.25% Series Preferred Stock, with the holders of other series of the Preferred Stock voting as a class, would be entitled to elect two members of the Board of Directors.

An additional 22,000 shares of the 9.25% Series, subscribed at December 31, 1979, were issued February 1, 1980.

13. Capital Stock

At December 31 the number of shares of capital stock is as follows:

Issued and Outstanding	1979	1978
Preferred—no par value (issuable in series). Authorized, 500,000: 9.25% Series Redeemable Preferred	103,000	None
5% Cumulative Preferred—$50 par value. Authorized, 585,730	407,718(a	407,718(a
$5.50 Dividend Cumulative Convertible Preferred—no par value—$20 stated value (each share convertible into 4.5 shares of Common; maximum liquidation value, $10.7 million and $12.3 million). Authorized, 1,164,077	107,238	123,370
$4.50 Dividend Cumulative Preferred—$100 par value. Authorized, 103,976	103,976	103,976
$4.30 Dividend Cumulative Preferred—no par value—$100 stated value. Authorized, 1,069,204	836,585	836,585
Common—$1 par value. Authorized, 60,000,000	22,104,445 (b	22,021,691 (b
After deducting treasury shares:		
a)	178,012	178,012
b)	4,796,053	4,806,225

Of the authorized shares shown above as of December 31, 1979, a total of 482,571 shares of Common is issuable upon conversion of $5.50 Preferred.

14. Employee Retirement Plans

Substantially all employees of the Company and consolidated subsidiaries are covered by one or more of several retirement plans. The plans are fully funded, except for immaterial amounts of unfunded past service costs resulting from the merger of the retirement plan of Capital Financial Services Inc. with the Company's retirement plan. The assets of the retirement plan of Capital exceed vested benefits. Total expense for the plans was $5.3 million for 1979 and $4.4 million for 1978.

15. Taxes on Income

The Company files a consolidated U.S. federal income tax return with all eligible subsidiaries, including the eligible merchandising subsidiaries. The Provision for Income Taxes for the Finance Division is comprised of:

(in millions)	1979	1978
United States:		
Current	$33.6	$56.1
Deferred	(1.8)	4.9
Investment Tax Credit Deferred	10.8	—
Total U.S.	42.6	61.0
Foreign:		
Current	8.7	7.5
Deferred	(1.2)	(2.3)
Total Foreign	7.5	5.2
Total U.S. and Foreign	50.1	66.2
State and Local	7.2	6.4
Total	$57.3	$72.6

Deferred taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes and relate to:

(in millions)	1979	1978
Differences between cash and accrual basis	$ 3.2	$ (1.1)
Insurance Benefits Provided	.4	(.5)
Insurance Policy Acquisition Costs	2.9	1.4
Reserve for Credit Losses	(7.6)	—
Unrealized Foreign Exchange Gain (Loss)	(1.8)	3.5
Other	(.1)	(.7)
Total	$ (3.0)	$2.6

A reconciliation between the expected and the effective U.S. and foreign tax rates on Finance Division Income before Income Taxes follows:

	1979	1978
Expected Tax Rate	46.0%	48.0%
Increases (Decreases) in Tax Rate Resulting from:		
Income of insurance subsidiaries taxed at lower effective rates	(9.9)	(8.9)
State and local income taxes	(2.1)	(2.0)
Unrealized and untaxed foreign exchange gains and losses	(.6)	1.8
Application of foreign tax credits	—	(1.7)
Investment tax credit	(.9)	(.7)
Other	(.6)	1.5
Effective Tax Rate	31.9%	38.0%

U.S. income taxes generally have not been provided on retained earnings of foreign subsidiaries, as such retained earnings are expected to be permanently invested in foreign countries.

16. Leases

There are 2,500 real estate leases which generally have an original term of five years with renewal option for a like term. Data processing equipment lease terms range from one to seven years and generally are renewable. The minimum rental commitments under non-cancelable leases at December 31, 1979 are as follows:

(in millions)	
1980	$16.7
1981	13.5
1982	10.2
1983	6.5
1984	3.4
1985 thru 1989	4.0
Thereafter	.9
Total	$55.2

17. Earnings Per Common Share

Earnings per Common Share is computed on the basis of average shares outstanding and their equivalents after deducting dividend requirements on Preferred Stocks. None of the Preferred Stocks are common stock equivalents.

18. Acquisitions/Divestitures

The Company began acquisition of the outstanding stock of First Texas Financial Corporation (now the Savings and Loan Division) in July 1978, held 24.1% at December 31, 1978, and acquired the remaining shares on April 6, 1979. In mid-December 1979 the Company acquired Capital Financial Services Inc. and the consumer finance and insurance operations of Southwestern Investment Company. Results of operations of Capital and Southwestern, except consumer finance offices to be divested, are included in the Finance Division from that time.

A final judgement in consent proceedings entered into by the U.S. Justice Department and the Company relating to the acquisition of Southwestern and Capital requires the divestiture of 136 of the 456 consumer finance offices acquired. The Company has entered into an agreement in principle for the sale of the offices to be divested. Completion of the sale is subject to approval of the U.S. Justice Department, the Federal Reserve Board and others, and is also subject to various conditions. The net amount estimated to be received upon such divestiture is shown on the balance sheet as Acquired Assets to be Divested, which includes the acquired net assets of the offices to be divested, the estimated results of their operations until the expected date of divestiture, and a share of the excess cost of net assets acquired as provided in the agreement. Any gain or loss on disposition will be reflected in unamortized excess cost of the retained operations.

The acquisitions, accounted for as purchases, (net of divestitures) were as follows:

(in millions)	Cost	Excess Cost
First Texas	$ 91.8	$52.3
Capital	110.7	16.2
Southwestern	73.6	36.7

Excess Cost, as shown above, is being amortized on the straight-line basis over 40 years.

Purchase accounting adjustments, net of tax effect, of $28.5 million relating to the value of mortgage loans of First Texas are being amortized under the Rule of 78ths method over nine years. Income from the Savings and Loan Division for the years ended December 31, 1979 and 1978 consists of the Company's portion of net income of First Texas which amounts to $9.0 million and $1.7 million, plus purchase accounting adjustments of $3.6 million and $.8 million.

The following table presents pro-forma results as if the acquisitions, net of divestitures, had been made on January 1, 1978.

(in millions)	1979	1978
Net Income	$107.4	$115.1
Earnings per Common Share	4.53	4.95

Pro-forma adjustments include interest on debt issued for the acquisitions, purchase accounting adjustments, and related income tax adjustments.

19. Interest Expense, after Income Taxes, Related to Investment in Subsidiaries

The effect of the treatment for interest expense as set out in Note 1f for the years ended December 31 is summarized as follows:

(in millions)	1979	1978
Net Income:		
Finance Division:		
Consumer Finance Group	$ 53.4	$ 62.8
Insurance Group	50.4	41.3
Interest Expense, after Income Taxes, Related to Investment in Insurance Group	(4.2)	(2.6)
Income from Finance Division	99.6	101.5
Income from Savings and Loan Division	12.6	2.5
Income from Merchandising Division	3.5	4.3
Interest Expense, after Income Taxes, Related to Investment in Non-Consolidated Subsidiaries	(14.6)	(10.0)
Total	$101.1	$ 98.3

20. Capitalization of Interest Cost

Financial Accounting Standards Board Statement No. 34 requires interest to be capitalized on assets being constructed for an enterprise's own use, effective January 1, 1980. In 1979 the Company began construction of office buildings, expected to be ready for occupancy in 1981, and has elected to begin capitalization of interest in 1979, as permitted. During 1979 the total amount of interest cost incurred was $266.4 million, of which $.8 million has been capitalized.

21. Quarterly Financial Data

Selected quarterly financial data required by Securities and Exchange Commission rules are included (unaudited) in Supplemental Information—Data by Calendar Quarter, Page 70.

22. Information about Operations in Different Geographic Areas

Information about operations in different geographic areas of the Finance Division for the years ended December 31 and assets of the Company and consolidated subsidiaries at December 31 is as follows:

1979 (in millions)	United States	Canada	Other Foreign	Eliminations	Consolidated
Revenue from Unaffiliated Customers	$ 836.2	$ 52.6	$ 94.1		$ 982.9
Transfers among Geographic Areas	15.5		5.7	$ (21.2)	
Total	851.7	52.6	99.8	(21.2)	982.9
Operating Profit	138.7	13.1	13.2		165.0
Foreign Exchange Gain (Loss)	(2.9)	2.8	.7		.6
General Corporate Expenses					(8.7)
Income Before Income Taxes					156.9
Identifiable Assets at December 31, 1979	4,907.3	223.1	638.9	(261.7)	5,507.6
Investments in and Advances to Non-Consolidated Subsidiaries					513.3
Corporate Assets					10.4
Total Assets at December 31, 1979					$6,031.3

1978 (in millions)					
Revenue from Unaffiliated Customers	$ 644.5	$ 51.4	$ 73.6		$ 769.5
Transfers among Geographic Areas	13.5			$ (13.5)	
Total	658.0	51.4	73.6	(13.5)	769.5
Operating Profit	151.2	16.6	14.6		182.4
Foreign Exchange Gain (Loss)	10.2	(14.4)	2.0		(2.2)
General Corporate Expenses					(6.1)
Income Before Income Taxes					174.1
Identifiable Assets at December 31, 1978	2,954.7	224.4	352.4	(136.0)	3,395.5
Investments in and Advances to Non-Consolidated Subsidiaries					471.7
Corporate Assets					14.1
Total Assets at December 31, 1978					$3,881.3

Amounts eliminated among geographic areas consist of interest and service fees paid to U.S. affiliates. Operating profit is total revenue less operating expenses (including interest expense), but before foreign exchange gain (loss), general corporate expenses, and provision for income taxes.

Identifiable assets are those assets identified with the operations in each geographic area. Corporate assets are principally cash.

23. Information about Industry Operations of the Finance Division

Information about industry operations of the Finance Division for the years ended December 31 and assets of the Company and consolidated subsidiaries at December 31 is as follows:

1979 (in millions)	Consumer Finance	Insurance Group	Elimi-nations	Consoli-dated
Revenue from Unaffiliated Customers	$ 720.8	$262.1		$ 982.9
Intersegment Revenue	11.9	(1.6)	$ (10.3)	
Total	732.7	260.5	(10.3)	982.9
Operating Profit	101.1	63.9		165.0
Foreign Exchange Gain (Loss)	1.3	(.7)		.6
General Corporate Expenses				(8.7)
Income Before Income Taxes				156.9
Identifiable Assets at December 31, 1979	4,997.0	950.1	(439.5)	5,507.6
Investments in and Advances to Non-Consolidated Subsidiaries				513.3
Corporate Assets				10.4
Total Assets at December 31, 1979				$6,031.3

1978 (in millions)	Consumer Finance	Insurance Group	Elimi-nations	Consoli-dated
Revenue from Unaffiliated Customers	$ 589.1	$180.4		$ 769.5
Intersegment Revenue	9.7	(1.1)	$ (8.6)	
Total	598.8	179.3	(8.6)	769.5
Operating Profit	132.6	49.8		182.4
Foreign Exchange Gain (Loss)	(3.4)	1.2		(2.2)
General Corporate Expenses				(6.1)
Income Before Income Taxes				174.1
Identifiable Assets at December 31, 1978	3,229.5	497.0	(331.0)	3,395.5
Investments In and Advances to Non-Consolidated Subsidiaries				471.7
Corporate Assets				14.1
Total Assets at December 31, 1978				$3,881.3

Amounts eliminated between industry segments are principally revenue of consumer finance subsidiaries derived from insurance activities with affiliated insurance companies and insurance reserves applicable to Finance Receivables.

The Board of Directors and Shareholders
of Beneficial Corporation

We have examined the balance sheets of Beneficial Corporation and Consolidated Subsidiaries as of December 31, 1979 and 1978 and the related statements of income, retained earnings, capital surplus, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Capital Financial Services Inc., Southwestern Investment Company or Western Acceptance Company (all consolidated subsidiaries acquired in December 1979) which statements reflect assets amounting to $487.6 million, $463.2 million, and $166.2 million respectively at December 31, 1979. We also did not examine the financial statements of the Merchandising Division or of the Savings and Loan Division, the equity in net assets and net income of which are set forth in the accompanying financial statements. The financial statements of such companies were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such companies, is based solely upon the reports of the other auditors. We have previously examined and expressed our unqualified opinions on the consolidated financial statements for each of the three years ended December 31, 1977 from which the comparative financial information on Pages 35 through 38 was prepared.

In our opinion, based upon our examinations and the reports of other auditors referred to above, such statements present fairly the financial position of Beneficial Corporation and Consolidated Subsidiaries at December 31, 1979 and 1978 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the comparative financial information referred to above presents fairly in all material respects the information set forth therein on a basis consistent with the financial statements for 1979 and 1978.

DELOITTE HASKINS & SELLS

Morristown, New Jersey
February 15, 1980

Beneficial Corporation and Consolidated Subsidiaries
Supplementary Financial Data Adjusted for General Inflation

(in millions) Year Ended December 31, 1979	As stated in the Financial Statements	Adjusted for General Inflation (in average 1979 dollars)
Revenue	$982.9	$982.9
Depreciation of Property and Equipment	(7.4)	(10.5)
Other Operating Expenses	(819.2)	(819.2)
Operating Income	156.3	153.2
Foreign Exchange Gain (Loss)	.6	.6
Income Before Income Taxes	156.9	153.8
Provision for Income Taxes	57.3	57.3
Income from Finance Division	99.6	96.5
Income from Savings and Loan Division	12.6	11.9
Income (Loss) from Merchandising Division	3.5	(24.0)
Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries	(14.6)	(14.6)
Net Income	$101.1	$69.8
Gain (Loss) from Decline in Purchasing Power of Net Monetary Assets Held		$ (30.1)

(in millions of average 1979 dollars) Years Ended December 31	1979	1978	1977	1976	1975
Revenue	$982.9	$856.0	$767.0	$685.0	$620.0
Net Income	69.8				
Gain (Loss) from Decline in Purchasing Power of Net Monetary Assets Held	(30.1)				
Net Assets at Year End	983.4				
Per Common Share					
Earnings	2.83				
Cash Dividends	1.95	1.89	1.92	1.83	1.69
Market Price at Year-End	24.94	24.51	24.68	33.83	23.04
Average Consumer Price Index	217.4	195.4	181.5	170.5	161.2

Notes

Basis of Preparation

The financial statements are prepared on the basis of historic prices in effect when the transactions occurred. The supplementary financial information required by Financial Accounting Standards Board Statement No. 33 discloses certain effects of inflation on the Company's property and equipment, and equity in the Savings and Loan and Merchandising Divisions. The supplemental data is expressed in average 1979 dollars and reflects adjustments for changes that have occurred in the purchasing power of the dollar as measured by the Consumer Price Index for all Urban Consumers (CPI-U). Certain information relating to years ended before December 31, 1979 is impractical to obtain.

Data Adjusted for General Inflation

Depreciation expense was calculated using the same methods and useful lives used in the financial statements. Equity in the Savings and Loan and Merchandising Divisions reflects adjustments to depreciation and, for the Merchandising Division only, cost of goods sold. The Statement requires that no adjustments be made to provision for income taxes.

Current Cost

The Statement permits the first presentation of information on a current cost basis in the 1980 annual report. Management believes that there is no material difference between income as adjusted for general inflation (constant dollars) and as adjusted for changes in specific prices (current cost) for the Finance and Savings and Loan Divisions.

Redeemable Preferred Stock

For purposes of calculating the loss from the decline in purchasing power of net monetary assets held and net assets at December 31, 1979, redeemable preferred stock is included with shareholders' equity. If redeemable preferred stock had been classified as a monetary liability, the loss from the decline in purchasing power of net monetary assets held would be $29.1 million and net assets at December 31, 1979 would be $885.7 million.

Statement 33 requires certain businesses to measure and report the effects of changing prices, using the methods of measurement and reporting formats prescribed. A supplementary computation of certain data adjusted for the effects of general inflation is required for 1979. This computation is referred to as the historic cost/constant dollar method since it adjusts historic costs reported on the primary financial statements to constant dollars using the CPI-U. This conversion to constant dollars does not change the historic cost basis of measurement, but changes only the unit of measurement.

Effects of Inflation

Since the Finance and Savings and Loan Divisions do not make large expenditures for property or produce or acquire goods for sale, the effects of changes in current costs of specific assets are not material. General inflation does, however, affect these Divisions. As the rate of inflation increases, the cost of obtaining funds increases. These additional costs cannot initially be passed on to customers due to interest rate ceilings established by law. Over the short run, profits are adversely influenced during periods of rising inflation.

General inflation also affects the Merchandising Division. The reduction in the purchasing power of the dollar causes wage rates to increase and other costs to climb. Costs to replace existing inventory and property and equipment are in excess of the prices initially paid.

Income Adjusted for General Inflation

The table on Page 48 shows data in the first column which appears in the primary statements. The second column is derived by restating depreciation of the Finance Division and income from the Savings and Loan and Merchandising Divisions to historic cost/constant dollars. In converting income from the Savings and Loan and Merchandising Divisions to constant dollars, depreciation of property and equipment and costs of goods sold were restated. Revenue and other expense items were not adjusted as these are assumed to have occurred proportionately to the CPI-U over the course of the year.

Net income as adjusted for general inflation decreased due to reductions in operating income, and in income from the Savings and Loan and Merchandising Divisions. The decrease in operating income and in income from the Savings and Loan Division results from an increase in depreciation expense. The decrease in income from the Merchandising Division is due to an increase in depreciation expense and an increase in cost of goods sold. In calculating cost of goods sold the opening inventory balance is adjusted upwards to average 1979 dollars and the ending inventory is adjusted downward to average 1979 dollars. The cost of purchases, which fluctuate seasonally, has been restated to average 1979 dollars on a quarterly basis. The higher opening inventory balance and the lower ending inventory balance, as well as the adjusted cost of purchases, result in increased cost of goods sold.

A separate line is shown for Gain (Loss) From Decline In Purchasing Power of Net Monetary Assets Held. Net monetary assets are cash and claims to cash fixed in terms of dollars, less amounts owed, fixed in terms of dollars. Financial institutions are usually in a positive net monetary position. Consequently, they will usually show a purchasing power decline during periods of rising prices. This item is not included in the calculation of net income.

Selected Supplementary Financial Data Adjusted for General Inflation.

This shows the effect of adjusting selected historic cost/nominal dollar data to average 1979 dollars.

Net Assets at year-end 1979 are calculated by reducing shareholders' equity by the historic cost/nominal dollar balance of property and equipment and converting the remainder to average 1979 dollars. To this figure is added the constant-dollar property and equipment balance. The decrease in historic cost/constant dollar net assets versus net assets as reported in the primary statements is due to the conversion of year-end shareholders' equity (less property and equipment) from year-end 1979 dollars to average 1979 dollars.

Since Statement 33 is experimental in nature, the data presented herein should not be viewed as a precise calculation of the effect of inflation.

Consumer Finance Group
Statement of Income

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Revenue	$197.2	$159.5	$732.7	$598.8	$510.5	$439.4	$386.3
Expenses							
Interest	72.0	43.4	234.5	156.4	120.2	93.3	81.2
Salaries and Employee Benefits	43.8	33.6	159.6	129.7	112.8	98.1	88.5
Provision for Credit Losses (after offsetting recoveries)	37.7	24.9	102.4	70.9	65.7	60.4	54.8
Advertising	5.6	6.5	22.2	17.9	14.0	9.4	6.6
Depreciation of Property and Equipment	2.0	1.2	7.2	5.4	4.8	4.4	4.5
Postage and Express	2.5	2.1	10.1	7.6	6.3	5.6	4.2
Printing and Stationery	1.6	2.0	9.4	7.7	5.9	5.0	4.1
Rent	5.8	4.7	21.4	17.8	16.2	14.7	14.4
Telephone	4.9	3.8	17.5	13.8	12.3	11.4	9.8
Travel	2.7	2.1	10.1	8.3	6.6	6.0	5.5
Other	10.8	8.9	38.2	31.9	21.4	17.3	15.5
Total	189.4	133.2	632.6	467.4	386.2	325.6	289.1
Operating Income	7.8	26.3	100.1	131.4	124.3	113.8	97.2
Foreign Exchange Gain (Loss)	(1.1)	.3	1.3	(3.4)	(3.8)	(6.1)	(5.9)
Income Before Income Taxes	6.7	26.6	101.4	128.0	120.5	107.7	91.3
Provision For Income Taxes	4.2	13.9	48.0	65.2	62.4	54.1	49.1
Net Income (Note 19)	$ 2.5	$ 12.7	$ 53.4	$ 62.8	$ 58.1	$ 53.6	$ 42.2
Supplemental Information							
During The Period							
Finance Receivables Charged Off (after offsetting recoveries)	$ 26.2	$ 15.4	$ 73.2	$ 51.1	$ 48.5	$ 48.4	$ 51.8
Annual Percentage Rate of Charges Collected	21.80	21.80	21.72	21.72	21.72	21.96	21.72
Annual Percentage of Net Income to Average Finance Receivables	.27	1.76	1.59	2.32	2.52	2.75	2.39
At End of Period							
Number of Consumer Finance Offices			2,399	1,939	1,890	1,768	1,723

Insurance Group
Statement of Income

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Revenue							
Premiums Earned	$62.9	$45.0	$217.5	$ 149.0	$ 114.3	$ 90.3	$ 69.5
Investment Income (net)	9.5	6.6	33.6	23.8	18.1	10.7	8.5
Other Income	4.0	1.9	9.4	6.5	3.8	2.5	.5
Total	76.4	53.5	260.5	179.3	136.2	103.5	78.5
Benefits and Expenses							
Policy Benefits	45.8	26.3	136.0	86.7	70.4	56.9	42.3
Commissions and Brokerage	14.2	13.6	59.6	36.1	31.1	19.0	11.1
Salaries and Employee Benefits	1.6	1.0	5.0	2.9	2.2	1.6	1.3
Decrease (Increase) in Unamortized Policy Acquisition Costs	(1.4)	(3.8)	(14.6)	(4.1)	(9.8)	(4.4)	(1.1)
Licenses and Taxes	.6	.7	4.0	3.5	2.2	1.7	1.0
Other Expenses	1.9	1.2	6.6	4.4	3.8	2.9	3.4
Total	62.7	39.0	196.6	129.5	99.9	77.7	58.0
Operating Income	13.7	14.5	63.9	49.8	36.3	25.8	20.5
Foreign Exchange Gain (Loss)	.2	(.1)	(.6)	1.2	.5	1.4	.1
Income Before Income Taxes	13.9	14.4	63.3	51.0	36.8	27.2	20.6
Provision For Income Taxes	3.4	3.1	12.9	9.7	6.6	6.5	3.4
Net Income (Note 19)	$10.5	$11.3	$ 50.4	$ 41.3	$ 30.2	$ 20.7	$ 17.2
Supplemental Information							
During the Period							
Premiums Written	$77.6	$60.4	$ 272.7	$ 170.2	$ 164.0	$ 113.8	$ 88.5
Ratio of Premiums Written to Shareholder's Equity (annualized)	1.02	1.38	.89	.98	1.23	1.09	1.18
At End of Period							
Investments—Securities			$ 762.4	$ 411.2	$ 308.3	$ 213.0	$ 165.3
Unamortized Policy Acquisition Costs			61.9	26.5	22.4	12.7	9.3
Total Assets			950.1	497.0	372.2	259.5	195.4
Insurance Policy and Claim Reserves			513.7	233.3	199.6	141.2	114.7
Shareholder's Equity			304.9	174.8	133.5	104.5	75.1
Life Insurance in Force			6,954.0	4,468.9	3,940.7	3,603.6	2,735.0

Savings and Loan Division
Balance Sheet

(in millions) December 31	1979	1978
Assets		
Cash	$ 3.8	$ 6.3
Certificates of Deposit	27.6	42.3
Investment Securities (Notes 2 and 5)	89.5	47.4
Loans Receivable (net) (Notes 3 and 5)	1,417.6	1,349.7
Foreclosed Real Estate (at cost, less allowances for losses of $.3 and $1.2)	2.2	10.4
Investment Real Estate (net) (Note 4)	21.7	26.0
Federal Home Loan Bank Stock (at cost) (Note 5)	16.4	13.9
Property and Equipment (at cost, less accumulated depreciation and amortization of $8.8 and $7.6)	20.5	17.7
Other Assets	6.5	7.3
Excess Cost of Common Stock of Subsidiaries (Note 1d)	7.9	7.9
Total	$1,613.7	$1,528.9
Liabilities and Shareholder's Equity		
Savings Accounts (Note 6)	$1,278.3	$1,248.2
Advances from Federal Home Loan Bank (Note 5)	196.3	165.1
Notes Payable (Note 5)	21.1	16.8
Advance Payments by Borrowers for Taxes and Insurance	10.5	7.6
Payable to Beneficial Corporation (Note 8)	1.8	—
Federal Income Taxes (Note 8)		
Current	—	2.8
Deferred	6.3	5.6
Other Liabilities	12.4	9.5
Total Liabilities	1,526.7	1,455.6
Shareholder's Equity (including Retained Earnings of $67.6 and $56.3) (Notes 5, 7, and 8)	87.0	73.3
Total	$1,613.7	$1,528.9

See Notes to Financial Statements.

Savings and Loan Division
Statement of Income and Retained Earnings

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Revenue							
Interest on Loans	$32.9	$31.0	$129.2	$118.2	$103.2	$ 92.7	$78.7
Other	8.2	4.2	25.2	14.9	12.7	10.2	9.1
Total	41.1	35.2	154.4	133.1	115.9	102.9	87.8
Expenses							
Interest on Savings Accounts	24.3	21.1	93.6	80.7	74.2	68.4	58.1
Interest on Borrowed Funds	5.0	3.4	17.4	12.0	8.8	8.1	8.5
Provision for Losses	1.0	2.6	1.6	2.8	1.7	2.4	1.0
Salaries and Employee Benefits	2.5	2.6	11.0	10.2	9.1	9.4	8.0
Other	3.8	2.8	13.0	11.0	10.8	10.9	9.7
Total	36.6	32.5	136.6	116.7	104.6	99.2	85.3
Income before Income Taxes	4.5	2.7	17.8	16.4	11.3	3.7	2.5
Provision for Income Taxes (Note 8)							
Current	.5	1.6	3.0	5.0	2.3	.3	(.2)
Deferred	.7	(.1)	1.0	.6	.8	.5	.5
Total	1.2	1.5	4.0	5.6	3.1	.8	.3
Earnings before Cumulative Effect of Changes in Accounting Principles	3.3	1.2	13.8	10.8	8.2	2.9	2.2
Cumulative Effect of Changes in Accounting Principles (Note 1h)	—	—	—	—	—	—	.5
Net Income	3.3	1.2	13.8	10.8	8.2	2.9	2.7
Retained Earnings, Beginning of Period	66.6	55.2	56.3	46.1	38.5	36.3	34.2
Total	69.9	56.4	70.1	56.9	46.7	39.2	36.9
Dividends Paid (Note 11)	2.3	.1	2.5	.6	.6	.7	.6
Retained Earnings, End of Period	$67.6	$56.3	$ 67.6	$ 56.3	$ 46.1	$ 38.5	$36.3

See Notes to Financial Statements.

Expansion of regular business activities, modifications in operations caused or permitted by regulatory bodies, and the effects of changes in the economy have caused most of the material variances covered in the following discussion.

Interest on Loans increased 9% during 1979 over 1978, while it was 14% greater than 1977. The primary contributing factor to both years was a growing earnings balance of loans outstanding which had expanded 5% in 1979 and 13% in 1978. In addition, rising rates on loan originations along with a revised Texas usury statute effective in August 1979, enabled portfolio rates to increase more rapidly during the current year than in 1978. Consequently, interest income grew faster than loans.

Other income jumped 69% to $25.2 million in 1979 from $14.9 million for 1978 which was 17% greater than 1977. This amount is primarily comprised of investment securities income, up 54%, gross profit on the sales of real estate, up 115%, and insurance premium income, up 90%.

Overall total revenues increased 16% during 1979 over 1978, and 1978 was 15% greater than 1977.

Interest on Savings Accounts climbed 16% during 1979 even though savings balances outstanding at year end were only 2% greater than 1978. In addition to normally rising rates on savings, this dramatically shows the continuing alteration in the savings portfolio mix. Savings account holders are still investing, to a large degree, in shorter-term higher-yielding instruments. The pattern was established during 1978 as cost of savings for that year was up 9% over 1977, while savings balances had grown 8%.

Rapidly rising interest costs are also exemplified in Interest on Borrowed Funds, which soared 45% during the year, while borrowed funds balances moved upward 32% at year-end 1979 over 1978. In contrast, interest on these funds jumped 36% in 1978 over 1977, but the increase in the balances outstanding at year end was 44% larger than at the end of 1977.

Provision for Losses decreased $1.2 million, 43%, during 1979 to $1.6 million for the year as compared to $2.8 million for 1978. The major portion of the loss provision in both years was attributable to one instalment loan. In 1978 loss provisions increased 65% ($1.1 million) over the $1.7 million provided during 1977.

Salaries and Employee Benefits increased 8% in 1979 over 1978, and 12% during 1978 over 1977. Other expenses were 18% and 2% greater for each respective year over the preceding year. These increases are primarily caused by expanding operations and inflation.

Although pre-tax income was greater in 1979 than 1978, Provision for Income Taxes decreased 29%. This was due to the merger of the company's ten savings institutions into one. A short income tax period was created which permitted the deduction of a loss on a loan that would not have been available otherwise. The tax provision for 1978 increased 81% over 1977, which was principally due to increased pre-tax earnings for the year.

Net Income reflected a 28% increase in 1979 over 1978, and was 32% greater for 1978 than for 1977. These gains result from the greater growth in revenue over increase in expenses, and, for 1979, a reduction in provision for income taxes which accounted for more than half of the gain.

Savings and Loan Division
Statement of Changes in Financial Position

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Source of Funds							
Operations							
Net Income	$ 3.3	$ 1.2	$ 13.8	$ 10.8	$ 8.2	$ 2.9	$ 2.7
Charges (Credits) to Income not Requiring Funds							
Interest Credited to Savings Accounts	14.1	15.2	61.0	57.7	52.3	47.1	39.6
Provision for Losses	1.0	2.6	1.6	2.8	1.7	2.4	1.0
Depreciation and Amortization	.3	.4	1.3	1.4	1.4	1.4	1.0
Other	.4	.2	(1.5)	(1.5)	(.9)	(.9)	(.8)
Funds Provided by Operations	19.1	19.6	76.2	71.2	62.7	52.9	43.5
Loan Principal Repayments	49.4	69.3	235.6	284.5	274.2	199.4	176.7
Increase (Decrease) in Savings Accounts Before Interest Credited	(19.0)	4.9	(31.0)	34.5	21.1	78.2	110.0
Increase (Decrease) in Advances from Federal Home Loan Bank	.9	25.0	31.3	58.3	(11.3)	22.6	(22.0)
Proceeds from Sales of Participations and Whole Loans	—	12.5	—	61.2	78.3	65.2	45.2
Increase (Decrease) in Notes Payable	1.6	.9	4.3	(2.4)	7.8	(4.0)	(13.1)
Other	(14.1)	(17.5)	13.6	8.2	9.3	3.0	3.5
	$37.9	$114.7	$330.0	$515.5	$442.1	$417.3	$343.8
Application of Funds							
Dividends Paid	$ 2.3	$ .1	$ 2.5	$ .6	$ .6	$ .7	$ .6
Loan Originations	70.5	122.8	295.8	502.7	474.6	369.4	305.9
Increase (Decrease) in Cash	4.6	5.2	(2.5)	(.1)	(7.2)	1.3	8.7
Increase (Decrease) in Investment Securities and Certificates of Deposit	(39.4)	(15.5)	26.4	9.2	(27.3)	36.9	17.1
Purchase of Property and Equipment	.5	.2	4.1	.7	.9	2.9	3.1
Other	(.6)	1.9	3.7	2.4	.5	6.1	8.4
	$37.9	$114.7	$330.0	$515.5	$442.1	$417.3	$343.8

See Notes to Financial Statements.

1. Summary of Significant Accounting Principles and Practices

a) Affiliation and Combination Basis. The financial statements include the accounts of First Texas Financial Corporation and its subsidiaries on an historical cost basis and do not reflect purchase accounting adjustments related to the acquisition by Beneficial. Prior to February 1979, First Texas owned majority interests in ten savings and loan associations, which were merged into one upon receipt of regulatory approval in February 1979. All material intercompany transactions have been eliminated.

b) Investment Securities. Investment securities are carried at cost, adjusted for the accretion of discounts and amortization of premiums. It is the intention of management that investment securities with a market value lower than amortized cost will be held to maturity or sold at minimal losses. Gains or losses on the sale of investment securities are reflected at the time of sale.

c) Unearned Discount on Loans Purchased. Certain mortgage loans are presented net of an unearned discount which represents the adjustment of these loans to their estimated fair market value at dates of acquisition. This discount is amortized to income over the estimated remaining life (generally 8 years from dates of acquisition) of the mortgage loans by the sum-of-the-digits method.

d) Excess Cost of Common Stock of Subsidiaries. Excess cost of $2.1 million of common stock of a savings and loan association acquired in 1969 will not be amortized so long as such excess cost is considered to have continuing value. The excess cost of all other savings and loan associations purchased is being amortized over forty years by the straight-line method. The excess cost of insurance agencies purchased is being amortized over ten years by the straight-line method.

e) Allowances for Losses. Specific provisions for losses on mortgage and construction loans are normally charged to income when any major permanent decline occurs in the value of the collateral of a loan. For instalment loans, regular monthly charges against income providing for losses inherent in this type of loan are based on experience plus estimated losses. Interest on loans 90 days or more delinquent is removed from income by charging the reserve for uncollectible interest.

The provision for losses on foreclosed real estate is established by a charge to income when the cost of the property exceeds the estimated net realizable value. In addition, certain foreclosed real estate properties are being operated until such time as they can be sold. The cost of operating these properties, net of revenues, is included in Other Expenses.

f) Joint Ventures. Investments in joint ventures are carried at equity. Joint ventures involved in land development capitalize actual interest and ad valorem taxes incurred during the development phase.

First Texas contributes capital to the joint venture to be used for property development. Interest is usually paid by the joint venture on the capital contributions and is recognized as income by First Texas to the extent of the profit sharing interests of the other participants. The balance of the interest is deferred and is recognized as income when the property is sold to an outside third party.

When the total investment in a specific real estate project, including holding costs, approximates or exceeds the estimated net realizable value of the property, the capitalization of holding costs ceases and a valuation allowance is established, if appropriate.

g) Property and Equipment. Property and equipment are depreciated by the straight-line method over their estimated useful lives of 3 to 40 years. Maintenance and repairs are expensed as incurred and renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

h) Changes in Accounting Principles. Effective January 1, 1975, the recognition of unearned add-on interest on instalment loans was changed to the accrual sum-of-the-digits method from the cash collections method and the straight-line method on certain loans.

2. Investment Securities

Investment securities at December 31 consist of the following:

	1979		1978	
(in millions)	Amortized Cost	Market Value	Amortized Cost	Market Value
U.S. Government and Government Agency, Partially Pledged (Note 5)	$47.4	$44.8	$28.4	$26.6
Other	42.1	42.0	19.0	18.7
Total Investment Securities	$89.5	$86.8	$47.4	$45.3

3. Loans Receivable (net)

Loans receivable at December 31 are as follows:

(in millions)	1979	1978
Mortgage Loans, Partially Pledged (Note 5)	$1,290.3	$1,219.0
Construction Loans	39.5	70.1
Instalment Loans	115.4	94.7
Single Pay Savings Account Loans	15.8	10.9
	1,461.0	1,394.7
Less: Loans in Process	(11.9)	(24.4)
Unearned Discount on Instalment Loans	(36.0)	(25.2)
	1,413.1	1,345.1
Accrued Interest	9.5	8.7
Unearned Discount on Loans Purchased	(.3)	(.6)
Allowance for Losses	(4.7)	(3.5)
Loans Receivable (net)	$1,417.6	$1,349.7

Loan commitments outstanding at December 31, 1979 amounted to $38.7 million.

4. Investment Real Estate (net)

Investment Real Estate at December 31 is as follows:

(in millions)	1979	1978
Wholly-owned, Partially Pledged (Note 5)	$10.4	$13.5
Joint Ventures*	12.0	13.3
Total	22.4	26.8
Less Provision for Losses	(.7)	(.8)
Investment Real Estate (net)	$21.7	$26.0

*Includes aggregate undistributed earnings at December 31 of approximately $3.3 million in 1979 and $3.1 million in 1978.

The joint ventures' activities consist mainly of land development and sale. As of December 31, 1979 the company was contingently liable on joint venture loans from unrelated parties aggregating $.8 million secured by land.

Income from investment real estate for the year ended December 31 was $6.5 million for 1979 and $3.7 million for 1978.

5. Borrowed Funds and Restrictions on Use of Surplus

The stock in the Federal Home Loan Bank of Little Rock and certain mortgage loans are pledged as collateral to secure advances from the FHLB.

Data for advances from the FHLB for the years ended December 31 are:

(in millions)	1979	1978
Maximum amount at any month end	$196.7	$165.1
Month-end average amount	177.8	136.7
Average interest rate (based on month-end weighted rates)	8.88%	8.02%

Notes payable at December 31 are as follows:

(in millions)	1979	1978
Due to bank in quarterly instalments through September 1984 of $.4 at prime rate plus .50%	$ 7.6	$ 8.0
Reverse repurchase agreements due in various instalments through February 1980, interest rates 9.55% to 13.75%	13.5	5.6
Other	—	3.2
Total Notes Payable	$21.1	$16.8

The note due in September 1984 is secured by 650 shares of common stock of the savings and loan subsidiary. The loan agreement relating to this note contains certain limitations and restrictions. At December 31, 1979 First Texas was in compliance with the terms of the loan agreement. The reverse repurchase agreements are secured by U.S. government obligations.

Data for notes payable for the years ended December 31 are:

(in millions)	1979	1978
Maximum amount at any month end	$21.1	$20.7
Month-end average amount	16.3	17.5
Average interest rate (based on month-end weighted rates)	10.37%	8.75%

The maturities of borrowed funds and their weighted average interest rates are as follows:

(in millions)	1979		1978	
Maturity	Amount	Weighted Rate	Amount	Weighted Rate
1979	$ —	—%	$ 89.8	8.63%
1980	88.4	9.93	42.0	8.80
1981	85.9	9.41	28.4	8.57
1982	23.3	9.64	1.6	12.24
1983	18.6	8.54	18.6	8.78
1984	1.2	9.50	1.2	12.24
1988	—	—	0.3	8.00
Total Borrowed Funds	$217.4	9.57%	$181.9	8.73%

6. Savings Accounts

Savings accounts by rate at December 31 are as follows:

(in millions)	1979	1978
5.25%	$ .4	$ 307.9
5.50	251.2	.5
6.50	62.7	130.8
6.75	37.5	56.4
7.50	285.6	376.5
7.75	159.2	176.9
8.00	53.7	30.2
Money Market:		
8.77	—	116.4
10.65	371.3	—
Other	56.7	52.6
Total Savings Accounts	$1,278.3	$1,248.2

7. Retained Earnings

The savings and loan subsidiary maintains general reserves as required by federal and state regulations. Reserve requirements represent a restriction on Retained Earnings, and cash dividends may not be charged against restricted retained earnings. A summary of Retained Earnings at December 31 follows:

(in millions)	1979	1978
Restricted	$44.6	$42.8
Unrestricted	23.0	13.5
Total Retained Earnings	$67.6	$56.3

8. Income Taxes

A consolidated federal income tax return was filed by First Texas and its subsidiaries, except FTS Life Insurance Company, prior to acquisition by Beneficial. Results of operations subsequent to acquisition will be included in Beneficial's consolidated return. The provision for federal income taxes for financial statement purposes is approximately the same as it would have been had a separate return been filed. The item Payable to Beneficial Corporation is for federal income taxes payable. Under conditions prescribed by the Internal Revenue Code, deductions from taxable income, within limitations, are permitted for additions to bad debt reserves. In computing federal income taxes for financial statement purposes, such deductions for the twelve months ended December 31 were $9.2 million for 1979 and $7.5 million for 1978. Retained Earnings at December 31 includes deductions totaling $54.2 million, before reduction by $9.1 million for purchase accounting adjustments, for which no provision for federal income taxes has been made. If, in the future, the amounts deducted are used for any purpose other than to absorb losses, a tax liability will be imposed at the then current federal income tax rates. It is not contemplated that tax bad debt reserves will be used in any manner which will create a federal income tax liability. However, if at December 31, 1979 the total amount had been used other than to absorb losses, this liability would have been approximately $24.9 million.

A reconciliation between the expected and the effective federal income tax rates is as follows:

	1979	1978
Expected Federal Income Tax Rate	46.0%	48.0%
Adjustments		
Bad Debt Deduction Adjusted for Gain on Sales of Foreclosed Real Estate and Provisions for Losses	(25.6)	(15.5)
Minimum Tax on Tax Preference Items	1.3	2.3
Other	.8	(.9)
Effective Federal Income Tax Rate	22.5%	33.9%

Deferred taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes. Charges (credits) to the deferred tax provision for the year ended December 31 are related to:

(in millions)	1979	1978
Adjustment to Cash Basis of Accounting	$1.2	$.8
Holding Costs on Investment Real Estate	(.2)	(.2)
Total Deferred Taxes	$1.0	$.6

9. Employees' Retirement Plan

Benefits under the plan are computed on an actuarial basis and become fully vested when an employee has completed 10 years of service. The policy is to fund accrued pension costs and sufficient contributions are made to amortize unfunded past service costs (aggregating $1.9 million at January 1, 1979, the latest actuarial valuation date) over a 20-year period. The amounts charged to income amounted to $.7 million for 1979 and for 1978.

10. Contingencies

First Texas is the defendant in lawsuits which have arisen during the ordinary course of business. In one lawsuit alleging failure to honor a loan commitment, a jury verdict of $1.1 million has been rendered against First Texas. The management of First Texas believes that it has meritorious defenses which it plans to pursue upon appeal and that the effect on shareholder's equity, if any, from the disposition of these suits will be immaterial.

11. Dividends and Shareholder's Equity

At December 31, 1979 First Texas distributed the stock of FTS Life Insurance Company, a wholly-owned subsidiary, as a dividend in the amount of $2.3 million to Beneficial Corporation. Prior to acquisition by Beneficial, First Texas paid its shareholders a cash dividend of $.2 million.

Prior to its acquisition by Beneficial, all outstanding stock options were redeemed and minority interests in subsidiaries were acquired by issuance of stock. In December 1979 Beneficial made a capital contribution of $2.2 million.

Accountants' Opinion

The Board of Directors
Beneficial Corporation

We have examined the consolidated balance sheets of Beneficial Corporation Savings and Loan Division (First Texas Financial Corporation and subsidiaries) as of December 31, 1979 and 1978 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and expressed our unqualified opinions on the consolidated financial statements for the three years ended December 31, 1977 from which the comparative financial information on Pages 53 through 55 was prepared.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of First Texas Financial Corporation and subsidiaries at December 31; 1979 and 1978 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Dallas, Texas
February 8, 1980

Merchandising Division
Balance Sheet

(in millions) December 31	1979	1978
Assets		
Current Assets		
Cash (Note 3)	$ 51.6	$ 34.8
Receivables (Note 1b)		
Instalment Accounts	600.8	577.8
Revolving Accounts	72.1	45.7
Wholesale Accounts	181.2	187.0
	854.1	810.5
Less Unearned Finance Charges	(108.2)	(104.2)
	745.9	706.3
Less Allowance for Doubtful Receivables	(45.6)	(44.8)
	700.3	661.5
Receivables Transferred to Beneficial Corporation (Note 1h)	(165.7)	—
Net Receivables	534.6	661.5
Equity in Receivables Transferred to Beneficial Corporation (Note 1h)	9.1	—
Inventories (Note 1c)	202.1	186.0
Prepaid Expenses	17.5	18.4
Total Current Assets	814.9	900.7
Property and Equipment (at cost less accumulated depreciation and amortization of $48.9 and $45.6) (Note 1e)	83.9	87.1
Other Assets	4.5	3.0
Total	$903.3	$990.8
Liabilities and Shareholder's Equity		
Current Liabilities		
Short-Term Notes (Note 3)	$171.4	$ 93.5
Long-Term Debt Due Within One Year (Note 4)	6.0	105.7
Accounts Payable	94.4	111.1
Payable to Beneficial Corporation (Notes 1d and 3)	102.0	77.1
State and Other Income Taxes Payable	4.9	6.3
Deferred Federal Income Taxes (Note 6)	62.4	61.1
Accrued Taxes, Warranties, and Other Liabilities	51.7	50.6
Accrued Store Closings and Other Items (Note 2)	5.6	3.2
Total Current Liabilities	498.4	508.6
Long-Term Debt (Note 4)	126.2	132.6
Deferred Federal Income Taxes (Note 6)	7.4	5.8
Total Liabilities	632.0	647.0
Shareholder's Equity (including Retained Earnings of $155.1 and $227.5) (Note 4)	271.3	343.8
Total	$903.3	$990.8

See Notes to Financial Statements.

Merchandising Division
Statement of Income and Retained Earnings

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Net Sales and Other Revenue	$335.1	$313.9	$1,176.9	$1,115.9	$1,178.6	$1,206.3	$1,020.4
Expenses							
Cost of Goods Sold (including certain buying and occupancy expenses)	223.0	217.3	810.1	776.2	818.3	812.8	651.3
Selling and Administrative Expense	95.0	86.0	308.7	299.3	304.1	293.9	289.2
Interest Expense							
Beneficial Corporation	2.1	1.3	6.8	7.3	8.1	7.5	11.6
Other	10.9	7.8	36.9	26.3	21.9	21.3	21.7
Provision for Store Closings and Other Items (Note 2)	2.7	—	11.2	—	12.1	—	—
Gain on Sale of Real Estate (Note 8)	—	—	(1.2)	—	—	—	—
Total	333.7	312.4	1,172.5	1,109.1	1,164.5	1,135.5	973.8
Income before Income Taxes	1.4	1.5	4.4	6.8	14.1	70.8	46.6
Provision for Income Taxes (Note 6)							
Federal							
Current	(4.2)	(1.3)	(1.3)	1.8	16.6	37.0	26.2
Deferred	4.3	1.4	1.8	.1	(11.2)	(5.1)	(4.5)
State	(.1)	(.1)	.4	.6	.9	3.1	2.1
Total	—	—	.9	2.5	6.3	35.0	23.8
Net Income	1.4	1.5	3.5	4.3	7.8	35.8	22.8
Retained Earnings, Beginning of Period	229.6	230.4	227.5	227.6	225.5	213.9	199.1
Total	231.0	231.9	231.0	231.9	233.3	249.7	221.9
Dividends Paid (Note 1h)	75.9	4.4	75.9	4.4	5.7	24.2	8.0
Retained Earnings, End of Period	$155.1	$227.5	$ 155.1	$ 227.5	$ 227.6	$ 225.5	$ 213.9

See Notes to Financial Statements.

Merchandising Divison

Management's Discussion and Analysis of the Statement of Income

Net Sales and Other Revenue increased 5% in 1979 as compared with 1978, an improvement over the decrease of 5% in 1978. The increase is principally attributable to Spiegel, which had a $56.1 million gain in 1979. New Spiegel merchandising campaigns and the extremely favorable response to catalogs featuring upgraded merchandise geared to discerning customers resulted in the improvement. Sales of Midland have been adversely affected by curtailment of operations and the substantial decline in the citizens band radio market. Sales lost by Western Auto, due to the closing of certain unprofitable company-owned stores, were more than offset by increased wholesale business in 1979, and Western Auto ended the year with a $15.0 million gain in revenue as compared with an $8.2 million decline in 1978.

Cost of Goods Sold increased 4% in 1979 slightly less proportionately than the increase in Net Sales and Other Revenue. The decrease of 5% in 1978 was in proportion to the decrease in Net Sales and Other Revenue. The improvement in gross profit margins in 1979 is reflected in this better showing.

Selling and Administrative Expense moved up by 3% in 1979 as a result of increased advertising costs and the impact of inflation on other expenses. In 1978 Selling and Administrative Expense decreased less than 2%, reflecting curtailment of activities at Midland.

An explanation of the Provision for Store Closings and Other Items is given in Note 2 of the Merchandising Division Notes to Financial Statements.

In 1979 Interest Expense showed a substantial increase of 30%, while the increase in 1978 was 12%. The amount of interest resulting from borrowing from Beneficial declined slightly, while Other Interest Expense showed an increase of $10.6 million for 1979. The increase in Other Interest reflects escalating interest rates coupled with additional borrowing required for higher customer receivables. In 1978 the decrease in borrowing from Beneficial and the increase in Other Interest Expense reflects the change to increased independent short-term financing for Spiegel. The consumer loan subsidiary of Spiegel, however, borrows from Beneficial at an interest rate of 7½%.

Net Income of the Merchandising Division for 1979 decreased $.8 million (19%) as compared with a decrease of $3.5 million (45%) for 1978 as compared with 1977. In 1979 Spiegel's gain in Net Income of $2.1 million (35%) and Midland's decrease in loss of $1.6 million were more than offset by Western Auto's decline of $4.5 million. The Midland loss results primarily from its decreased volume while the loss for Western Auto results principally from the charges for Store Closings and Other Items. In 1978 decreased volume in all companies of the Merchandising Division, coupled with the increase in Interest Expense, caused the decrease in Net Income.

Merchandising Division
Statement of Changes in Financial Position

(in millions)	(Unaudited) Three Months Ended December 31 1979	1978	Years Ended December 31 1979	1978	1977	1976	1975
Source of Funds							
Net Income	$ 1.4	$ 1.5	$ 3.5	$ 4.3	$ 7.8	$35.8	$ 22.8
Expenses Not Requiring Working Capital							
Depreciation and Amortization	2.8	2.5	11.0	9.9	9.6	8.8	9.0
Deferred Income Taxes	.7	.1	1.6	.9	1.1	.9	1.0
Funds Provided by Operations	4.9	4.1	16.1	15.1	18.5	45.5	32.8
Long-Term Debt Issued	—	—	1.7	—	—	1.1	.4
Disposals of Property and Equipment	2.3	.7	3.6	1.1	2.7	1.0	.1
Other	—	.4	—	.5	.3	—	—
	$ 7.2	$ 5.2	$ 21.4	$ 16.7	$21.5	$47.6	$ 33.3
Application of Funds							
Additions to Property and Equipment	$ 1.2	$ 3.4	$ 10.7	$ 11.8	$12.8	$ 8.7	$ 8.1
Reduction of Long-Term Debt	.5	50.9	8.1	106.6	9.4	8.8	1.8
Dividends Paid	75.9	4.4	75.9	4.4	4.0	24.2	8.0
Other	1.2	.1	2.3	.4	.2	.2	.5
Increase (Decrease) in Working Capital	(71.6)	(53.6)	(75.6)	(106.5)	(4.9)	5.7	14.9
	$ 7.2	$ 5.2	$ 21.4	$ 16.7	$21.5	$47.6	$ 33.3
Changes in Working Capital							
Increase (Decrease) in Current Assets							
Cash	$ .9	$ 3.5	$ 16.8	$ 19.3	$ 1.1	$ (.3)	$ (11.5)
Net Receivables	(155.8)	2.4	(126.9)	(4.3)	1.3	10.7	(50.3)
Equity in Receivables Transferred	9.1	—	9.1	—	—	—	—
Inventories	(7.2)	(27.2)	16.1	(17.1)	(2.7)	31.5	(13.3)
Prepaid Expenses	(4.4)	(3.0)	(.9)	5.9	(.3)	.2	(1.9)
	(157.4)	(24.3)	(85.8)	3.8	(.6)	42.1	(77.0)
Increase (Decrease) in Current Liabilities							
Short-Term Notes and Long-Term Debt Due Within One Year	(91.0)	9.6	(21.8)	161.8	(44.1)	68.3	(44.4)
Accounts Payable	(4.4)	14.1	(16.7)	12.0	2.6	12.2	5.6
Payable to Beneficial Corporation	11.5	6.6	24.9	(61.2)	48.5	(39.7)	(56.2)
Deferred Income Taxes	4.4	.4	1.3	(1.4)	(9.8)	(5.4)	(4.2)
Accrued Store Closings and Other Items	(4.3)	(.6)	2.4	(4.5)	7.7	—	—
Other Current Liabilities	(2.0)	(.8)	(.3)	3.6	(.6)	1.0	7.3
	(85.8)	29.3	(10.2)	110.3	4.3	36.4	(91.9)
Increase (Decrease) in Working Capital	$(71.6)	$(53.6)	$(75.6)	$(106.5)	$(4.9)	$ 5.7	$ 14.9

See Notes to Financial Statements.

1. Summary of Significant Accounting Principles and Practices

a) Affiliation and Combination Basis. The financial statements include the accounts of Midland International Corporation (Midland) and Subsidiaries, Spiegel, Inc. (Spiegel) and Subsidiaries, and Western Auto Supply Company (Western Auto) and Subsidiaries. All significant intercompany items have been eliminated.

b) Receivables. Receivables consist of the following: a) instalment accounts, for which finance charges are recorded in income by either the effective yield method or sum-of-the-years digits method; b) revolving accounts, for which finance charges are recorded in income when billed to the customers; c) amounts due from associate store owners for merchandise and certain other wholesale customers, which normally do not earn finance charges if paid within the trade terms; and d) amounts due from customers of associate store owners, which earn finance charges calculated on the sum-of-the-years digit method. Instalment Accounts Receivable include $115.9 million at December 31, 1979 and $83.7 million at December 31, 1978 of consumer finance receivables of a subsidiary of Spiegel.

In accordance with merchandising industry practice, receivables, including receivables transferred to Beneficial Corporation, (before deduction of unearned finance charges) include amounts becoming due after one year of $396.5 million at December 31, 1979 and $348.9 million at December 31, 1978.

c) Inventories. Inventories are priced at the lower of cost (first-in, first-out) or replacement market, after considering obsolescence.

d) Taxes on Income. Results of operations are included in the consolidated federal income tax return of Beneficial. The total provisions for federal income taxes for financial statement purposes are approximately the same as they would have been had the companies filed separate returns. The item Payable to Beneficial Corporation includes federal income taxes payable.

e) Property and Equipment. Depreciation of property and equipment is provided on the straight-line method over their estimated useful lives.

Maintenance and repairs are expensed as incurred. Renewals and betterments are capitalized. The cost and accumulated depreciation of property and equipment retired, sold, or otherwise disposed of are eliminated from the accounts at the time of disposal and any resulting gain or loss is reflected in income.

f) Employee Retirement Plans. Current retirement plan cost and provision for funding prior service costs are charged to expense.

g) Accruals for Merchandise Warranties. Reserves are maintained to provide for anticipated costs relating to merchandise under warranty not covered by manufacturers' warranties.

h) Transfers of Subsidiaries. At December 31, 1979 Spiegel distributed the stock of Guaranteed Equity Life Insurance Company, a wholly-owned subsidiary, as a dividend in the amount of $7.8 million to Beneficial Corporation. The operations of Guaranteed Equity Life for the year 1979 are included in the statement of income of the Merchandising Division, but its assets and liabilities are not included in the balance sheet.

At December 31, 1979 Western Auto distributed the stock of Western Acceptance Company, a wholly-owned subsidiary engaged in the purchase of customer receivables generated by Western Auto retail stores and associate stores, as a dividend in the amount of $68.1 million to Beneficial Corporation. Under an agreement between Western Auto and Western Acceptance, Western Auto is paid 95% of the gross customer receivables sold to Beneficial and remains liable for losses on customer receivables and guarantees Western Acceptance minimum earnings before income taxes and fixed charges on debt of at least 150% of such fixed charges. The operations of Western Acceptance for the year 1979 are included in the statement of income of the Merchandising Division, but its assets and liabilities are not included in the balance sheet.

On January 1, 1980 Beneficial Corporation contributed the stock of Midland International Corporation, a wholly-owned subsidiary, to Western Auto. Midland continues to be part of the Merchandising Division.

2. Store Closings and Other Items

At June 30, 1977 Western Auto established a provision of $9.6 million. Of this amount $7.0 million related to the closing of unprofitable retail stores and $2.6 million to inventory devaluation of discontinued items. At December 31, 1978, $3.2 million remained from the original provision for costs of retail store closings.

At September 30, 1977 Spiegel provided $2.5 million for the closing of all catalog order stores, as management had determined that these stores were no longer a desirable marketing outlet. All catalog order stores have been closed and all costs have been incurred.

In September 1979 Western Auto closed 116 unprofitable retail stores and provided $8.5 million, in addition to $3.0 million remaining from the amount previously provided, for the anticipated cost of retail store closings. Substantially all of the remaining $3.8 million of Accrued Store Closings will be incurred in the next twelve months. In December 1979 Western Auto provided $2.7 million for losses on the sale of certain instalment accounts. The amount of $1.8 million of accrued losses remaining will be incurred in the first half of 1980.

3. Short-Term Notes

At December 31 these consist of the following:

(in millions)	1979	1978
Commercial paper	$ —	$25.5
Notes payable to banks	171.4	68.0
Total Short-Term Notes	$171.4	$93.5

Spiegel and Western Auto (until December 31, 1979) meet certain operating fund requirements through short-term bank borrowings. At December 31, 1979 a total of $139.1 million in unused bank lines was available to the companies under various informal arrangements. Most arrangements provide for the maintenance of bank balances based upon a percentage of the available line or related borrowing, while others are based upon a fixed rate or give effect to normal operating bank balances. At December 31, 1979, $45.4 million in compensating bank balances was maintained in support of bank lines. Subsequent to January 1, 1980 Western Auto is obtaining financing through the sale of receivables to Beneficial. The bank lines of credit of Western Auto amounting to $120.6 million at December 31, 1979 will no longer be required.

Midland and the consumer loan subsidiary of Spiegel also obtain operating funds through borrowing from Beneficial at an interest rate of 7½%.

4. Long-Term Debt and Restrictions on Use of Retained Earnings

A summary of long-term debt at December 31 follows:

(in millions)	1979	1978
5.5% Notes payable, due 1979	$ —	$ 50.0
Debentures		
9.5%, due 1979	—	50.0
7.85%, due 1996, with annual sinking fund payments	40.5	42.3
5.25%, due 1983	40.0	40.0
5%, due 1987	40.0	40.0
5.9% subordinated notes, due 1978 through 1980	5.0	10.0
Other long-term debt	6.7	6.0
	132.2	238.3
Less long-term debt due within one year	(6.0)	(105.7)
	$126.2	$132.6

Annual long-term debt and sinking fund payments for the five years subsequent to December 31, 1979 are as follows (in millions): 1980, $6.0; 1981, $2.7; 1982, $2.7; 1983, $42.7; and 1984, $2.7.

The companies' long-term debt agreements contain certain covenants restricting the payment of dividends, the purchase and retirement of the companies' capital stock, investments, and indebtedness. Under the terms of the most restrictive covenants, approximately $41.7 million at December 31, 1979 was available for the payment of dividends to Beneficial Corporation.

5. Employee Profit Sharing and Retirement Plans

Profit sharing and retirement plans cover substantially all employees who have met specified requirements. The companies' contributions to these plans (charged to earnings) were $7.8 million for 1979 and $5.9 million for 1978.

At January 1, 1979, the date of the most recent valuation, the actuarially computed value of vested benefits under the retirement plans exceeded fund assets and balance sheet accruals by approximately $7.0 million.

6. Federal Taxes on Income

Deferred taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes. Charges (credits) to the deferred tax provision for the years ended December 31 are related to:

(in millions)	1979	1978
Provisions for store closings and other items	$(1.1)	$1.5
Instalment basis for gross profit on credit sales	1.8	(.8)
Depreciation	.7	.6
Provision for doubtful receivables	.3	.3
Provision for merchandise warranties	(.2)	(.7)
Gain on sale of real estate	.3	—
Other	—	(.8)
	$ 1.8	$ .1

A reconciliation between the expected and the effective federal income tax rates is as follows:

	1979	1978
Expected Tax Rate	46.0%	48.0%
Increases (Decreases) in Tax Rate Resulting from		
Income of insurance subsidiaries taxed at lower effective rates	(11.7)	(6.0)
Gain on sale of real estate taxed at capital gains rates	(5.0)	—
State and local income taxes	(4.5)	(4.0)
Investment tax credit	(5.2)	(8.8)
Contribution of certain properties	—	(6.3)
Other	(8.2)	5.0
Effective Tax Rate	11.4%	27.9%

7. Information by Group

The Merchandising Division consists of Midland, Spiegel, and Western Auto, and their respective subsidiaries. Midland is an international marketing and importing company that sells its merchandise at wholesale, primarily to domestic retailers. Spiegel is engaged in the sale through catalogs of merchandise by mail. Western Auto sells its merchandise at retail through company-owned stores and to independently-operated associate stores, located in smaller communities.

Midland sells merchandise to Western Auto and Spiegel at prices generally comparable to those charged unaffiliated customers. While Midland was owned by Western Auto, loans were made to Midland on which interest was charged at Western Auto's actual short-term borrowing costs plus a credit facility charge.

Information at December 31 and for the years then ended is as follows:

1979 (in millions)	Midland	Spiegel	Western Auto	Adjustments and Eliminations	Combined
Identifiable Assets	$24.3	$563.4	$321.3	$ (5.7)	$ 903.3
Net Sales and Other Revenue					
Unaffiliated Customers	52.0	426.8	698.1		1,176.9
Intradivision	1.2			(1.2)	
Total	53.2	426.8	698.1	(1.2)	1,176.9
Operating Profit (Loss)	(3.9)	41.0	21.0		58.1
Interest Expense					(43.7)
Provision for Store Closings and Others Items					(11.2)
Gain on Sale of Real Estate					1.2
Income Before Taxes					$ 4.4

1978 (in millions)	Midland	Spiegel	Western Auto	Adjustments and Eliminations	Combined
Identifiable Assets	$40.8	$486.2	$470.4	$ (6.6)	$ 990.8
Net Sales and Other Revenue					
Unaffiliated Customers	62.1	370.7	683.1		1,115.9
Intradivision	10.9			(10.9)	
Total	73.0	370.7	683.1	(10.9)	1,115.9
Operating Profit (Loss)	(7.3)	28.4	19.3		40.4
Interest Expense					(33.6)
Income Before Taxes					$ 6.8

8. Gain on Sale of Real Estate

A gain of $1.2 million ($.9 million after taxes) resulted from the sale of excess land by Western Auto.

9. Transactions with Affiliates

An insurance subsidiary of Beneficial offers credit life insurance to Spiegel customers as well as to certain borrowers from a consumer loan subsidiary of Spiegel. The life insurance subsidiary of Spiegel (transferred to Beneficial at December 31, 1979) assumes under reinsurance 100% of the coverage. Premiums paid to the subsidiary of Beneficial were $5.9 million in both 1979 and 1978. The excess of such premiums over claims paid, adjustments to funded reserves, and commissions of 18% were paid to Spiegel and its subsidiaries in amounts aggregating $1.6 million in 1979 and $1.5 million in 1978.

The cost to Midland and Western Auto for employee group life and accident and health insurance coverage provided by an insurance subsidiary of Beneficial was $3.8 million in 1979 and $1.3 million in 1978.

Beneficial provides certain services for the collection of mail order receivables of Spiegel. Charges to Spiegel for such services aggregated $2.7 million in 1979 and $3.0 million in 1978.

Western Auto sold to Beneficial in 1979 for $2.6 million installment accounts with a face value of $3.6 million.

10. Leases

The companies occupy certain warehouse facilities and stores and use certain equipment under operating leases. Rent expense for the years ended December 31 was $17.4 million in 1979 and $18.6 million in 1978. Minimum lease commitments at December 31, 1979, excluding Western Auto retail stores to be closed, for which provision has been made (see Note 2), were:

(in millions)	
1980	$10.0
1981	7.9
1982	6.8
1983	6.1
1984	5.3
1985 thru 1989	15.4
1990 thru 1994	3.7
Thereafter	1.5
Total	$56.7

It is expected that, in the normal course of business, leases which expire will be renewed or replaced with leases on other properties; thus, it is expected that future minimum annual rentals will not be less than those for 1979.

11. Contingencies

The U.S. Customs Service has assessed Midland $5.1 million for dumping duties on T.V. sets imported by Midland from Japan from 1969 through 1974. Midland is contesting these assessments and believes that additional assessments for T.V. sets imported after 1974 will not exceed $3.0 million. The U.S. Department of Justice has sued to collect $3.3 million of the amount presently assessed against Midland.

Western Auto, which has not been assessed any dumping duties, estimates that assessments on T.V. sets of Japanese manufacture it imported from January 1976 to approximately April 1977 would not exceed $5.1 million. Western Auto continued to import these T.V. sets through December 1978 but has no basis for estimating what assessments, if any, might be made on such sets.

Counsel believes that the method for assessing dumping duties is contrary to the relevant statute, and formal protests of such assessments have been or will be filed. Midland believes that the above-mentioned assessments against it will be substantially reduced.

No provision has been made in the financial statements for assessments of dumping duties.

12. Replacement Cost Data (unaudited)

In accordance with regulations of the Securities and Exchange Commission, Western Auto has developed replacement cost information for inventory and fixed assets. This information is included in the Form 10-K of Western Auto filed with the Securities and Exchange Commission. Spiegel and Midland are not required to develop or report such information.

Accountants' Opinion

The Board of Directors
Beneficial Corporation

We have examined the balance sheets of Beneficial Corporation Merchandising Division (Midland International Corporation and Subsidiaries, Spiegel, Inc. and Subsidiaries, and Western Auto Supply Company and Subsidiaries, combined) as of December 31, 1979 and 1978 and the related statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and expressed our unqualified opinions on the combined financial statements for the three years ended December 31, 1977 from which the comparative financial information on Pages 60 through 62 was prepared.

In our opinion, the aforementioned combined financial statements present fairly the financial position of the Beneficial Corporation Merchandising Division at December 31, 1979 and 1978 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Kansas City, Missouri
February 14, 1980

Merchandising Division
Information by Group

Supplemental Information

(in millions) Years Ended December 31	1979	1978	1977	1976	1975
Net Sales and Other Revenue					
Midland (a	$ 52.0	$ 62.1	$ 110.3	$ 209.8	$ 88.0
Spiegel	426.8	370.7	377.0	359.3	367.3
Western Auto	698.1	683.1	691.3	637.2	565.1
Combined	$1,176.9	$1,115.9	$1,178.6	$1,206.3	$1,020.4
Income (Loss) Before Income Taxes					
Midland	$ (6.0)	$ (9.3)	$ (4.4)	$ 33.2	$ 12.4
Spiegel	14.2	9.9	11.5	11.0	9.1
Western Auto	(3.8)	6.2	7.0	26.6	25.1
Combined	$ 4.4	$ 6.8	$ 14.1	$ 70.8	$ 46.6
Net Income (Loss)					
Midland	$ (3.1)	$ (4.7)	$ (2.0)	$ 16.8	$ 6.4
Spiegel	8.1	6.0	6.4	5.7	4.6
Western Auto	(1.5)	3.0	3.4	13.3	11.8
Combined	$ 3.5	$ 4.3	$ 7.8	$ 35.8	$ 22.8

	Receivables, Net of Unearned Finance Charges (b		Allowance for Doubtful Receivables	
(in millions) December 31	1979	1978	1979	1978
Midland	$ 7.3	$ 13.9	$ .2	$ .4
Spiegel	472.7	426.7	31.3	30.5
Western Auto (c	265.9	265.7	14.1	13.9
Combined	$745.9	$706.3	$45.6	$44.8

	Inventories		Total Assets		Shareholder's Equity	
(in millions) December 31	1979	1978	1979	1978	1979	1978
Midland	$ 14.0	$ 17.4	$ 23.7	$ 34.2	$ 8.7	$ 11.9
Spiegel	52.3	33.1	563.4	486.2	86.0	85.6
Western Auto	135.8	135.5	316.2	470.4	176.6	246.3
Combined	$202.1	$186.0	$903.3	$990.8	$271.3	$343.8

a) Excludes intradivision sales (in millions): $1.2, $10.9, $11.1, $18.7, and $15.4 respectively.
b) Excludes intradivision receivables.
c) Includes Western Acceptance Company receivables transferred to Beneficial Corporation.

Beneficial Corporation and Subsidiaries
Eleven-Year Summary

Supplemental Information (amounts in millions except where noted)	Years Ended December 31	1979	1978
During the Year			
Consolidated			
Net Income		$ 101.1	98.3
Earnings per Common Share (dollars)		$ 4.24	4.19
Average Number of Common Shares		22.2	22.1
Cash Dividends Paid per Common Share (dollars)		$ 1.95	1.70
Finance Division			
Volume of Finance Receivables Acquired less Unearned Finance Charges (b		$3,266.4	2,690.3
Number of Finance Receivables Acquired (b		2.8	2.4
Average Amount of Transaction (dollars) (b		$ 1,177	1,098
% of Monthly Cash Principal Collection to Average Monthly Balances		4.37	4.43
% of Finance Receivables Charged Off (after offsetting recoveries) to Average Monthly Balances		1.87	1.57
Revenue		$ 982.9	769.5
Income before Provision for Income Taxes		$ 156.9	174.1
Income from Finance Division		$ 99.6	101.5
% of Income from Finance Division to Revenue		10.13	13.19
Savings and Loan Division			
Revenue		$ 154.4	133.1
Income before Income Taxes		$ 17.8	16.4
Net Income of Savings and Loan Division		$ 13.8	10.8
% of Net Income to Revenue		8.94	8.11
Equity of Beneficial in Net Income plus Purchase Accounting Adjustments		$ 12.6	2.5
Merchandising Division			
Net Sales and Other Revenue		$1,176.9	1,115.9
Income before Income Taxes		$ 4.4	6.8
Income from Merchandising Division		$ 3.5	4.3
% of Income from Merchandising Division to Net Sales and Other Revenue		.30	.39
Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries		$ (14.6)	(10.0)
At Year End			
Consolidated			
Number of Employees		26,400	25,500
Number of Holders of Common Stock		32,000	33,200
Finance Division			
Finance Receivables less Unearned Finance Charges		$4,264.0	3,015.4
% of Unearned Finance Charges to Related Net Finance Receivables		27.70	28.00
Reserve for Credit Losses		$ 203.7	147.8
% of Reserve for Credit Losses to Principal of Finance Receivables		4.78	4.90
% of Finance Receivables (account balances, loans only) with Payments More than Two Months Delinquent (based on recency of payment) (c		1.26	1.15
Number of Accounts		3.7	3.0
Average Account Balance (dollars)		$ 1,154	1,013

a) Excludes Extraordinary Credit of $12.1 million from sale of undeveloped land by a non-consolidated subsidiary. Earnings per Common Share excludes Extraordinary Credit of $.64.
b) Excluding bank credit card receivables.
c) Excluding receivables of West German subsidiary.

1977	1976	1975	1974	1973	1972	1971	1970	1969
85.7	100.4	73.4	63.7(a	75.8	82.2	68.7	59.2	53.6
3.64	4.52	3.34	2.83(a	3.51	3.92	3.22	2.71	2.45
21.8	20.4	19.1	19.1	18.7	18.4	18.1	17.9	17.5
1.60	1.4375	1.25	1.25	1.20	1.10	1.0667	1.0667	1.0667
2,261.9	1,900.3	1,553.6	1,669.2	1,739.4	1,632.9	1,461.8	1,368.8	1,402.7
2.1	1.8	1.5	1.9	2.2	2.1	1.9	1.9	2.1
1,063	1,057	1,028	885	799	759	753	711	662
4.34	4.35	4.28	4.45	4.94	4.90	4.82	4.63	4.96
1.74	2.04	2.42	2.12	1.82	1.56	1.57	1.40	1.22
640.4	536.5	460.3	452.5	416.3	376.9	336.1	305.4	276.0
153.7	132.5	110.0	95.5	112.6	114.7	107.8	96.8	84.7
86.4	73.0	58.3	51.2	58.7	65.1	56.6	52.4	42.7
13.49	13.61	12.67	11.31	14.10	17.27	16.84	17.16	15.47
115.9	102.9	87.8	78.7	64.7	50.5	37.6	28.2	22.7
11.3	3.7	2.5	4.7	8.8	7.5	4.4	3.0	2.3
8.2	2.9	2.7	3.9	7.8	5.9	3.8	2.4	2.3
7.08	2.82	3.08	4.96	12.06	11.68	10.11	8.51	10.13
—	—	—	—	—	—	—	—	—
1,178.6	1,206.3	1,020.4	1,039.2	1,062.6	985.4	878.5	800.0	801.6
14.1	70.8	46.6	39.6	45.0	43.7	33.1	21.6	31.0
7.8	35.8	22.8	19.9	23.3	22.4	16.8	11.1	14.3
.66	2.97	2.23	1.91	2.19	2.27	1.91	1.39	1.78
(8.5)	(8.4)	(7.7)	(7.4)	(6.3)	(5.3)	(4.7)	(4.3)	(3.4)
25,100	24,900	26,600	29,300	32,900	33,100	32,000	31,600	30,900
32,700	31,700	29,900	30,000	29,300	29,300	29,400	30,900	31,700
2,526.2	2,085.0	1,828.4	1,781.5	1,700.7	1,579.7	1,441.3	1,366.5	1,267.1
28.86	29.90	29.10	28.16	27.80	27.68	26.85	25.13	24.86
126.3	106.3	95.0	92.6	86.7	82.1	76.4	73.7	69.6
5.00	5.10	5.20	5.20	5.10	5.20	5.30	5.39	5.49
1.08	1.19	1.29	1.28	1.15	.99	.89	.96	.90
2.5	2.1	2.0	2.1	2.2	2.2	2.1	2.1	2.1
1,031	995	911	833	756	711	685	643	594

Beneficial Corporation and Subsidiaries
Data by Calendar Quarter

Supplemental Information			1979
(in millions, except per share figures)	First Quarter	Second Quarter	Third Quarter
Revenue			
Finance Division	$ 226.4	$ 239.2	$ 246.2
Savings and Loan Division	38.1	36.8	38.4
Merchandising Division			
Midland (excluding intradivision sales)	10.9	13.5	14.5
Spiegel, Inc.	91.3	85.1	96.8
Western Auto (excluding intradivision revenue)	164.9	197.0	167.8
Revenue from Merchandising Division	267.1	295.6	279.1
Total	$ 531.6	$ 571.6	$ 563.7
Operating Income (Loss)			
Finance Division	$ 52.3	$ 43.7	$ 40.9
Savings and Loan Division	6.2	3.0	4.1
Merchandising Division			
Midland	(1.3)	(1.1)	(1.8)
Spiegel, Inc.	.5	2.6	2.7
Western Auto	2.9	4.8	(6.3)
Operating Income (Loss) from Merchandising Division	2.1	6.3	(5.4)
Total	$ 60.6	$ 53.0	$ 39.6
Net Income (Loss)			
Finance Division	$ 31.6	$ 29.1	$ 27.0
Equity in Net Income of Savings and Loan Division plus Purchase Accounting Adjustments	1.5	2.9	3.9
Merchandising Division			
Midland	(.7)	(.5)	(.9)
Spiegel, Inc.	.3	1.4	1.6
Western Auto	1.4	2.6	(3.1)
Income (Loss) from Merchandising Division	1.0	3.5	(2.4)
Interest Expense, After Income Taxes, Related to Investment in Non-Consolidated Subsidiaries	(3.0)	(3.8)	(3.9)
Total	$ 31.1	$ 31.7	$ 24.6
Earnings Per Common Share	$ 1.34	$ 1.36	$ 1.05
Shares Entitled to Vote			
$5.50 Dividend Cumulative Convertible Preferred Stock			
High Sales Price	$106.50	$122.25	$140.25
Low Sales Price	100.00	101.50	120.25
Dividends Paid Per Share	1.375	1.375	1.375
$4.30 Dividend Cumulative Preferred Stock			
High Sales Price	45.00	45.50	45.75
Low Sales Price	40.625	42.50	41.125
Dividends Paid Per Share (payable semi-annually)	2.15	—	2.15
Common Stock			
High Sales Price	24.25	28.50	32.50
Low Sales Price	22.125	22.625	26.375
Dividends Paid Per Share	.45	.50	.50

				1978		
Fourth Quarter	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
$ 271.1	$ 982.9	$ 184.9	$ 184.1	$ 190.6	$ 209.9	$ 769.5
41.1	154.4	30.9	32.8	34.1	35.3	133.1
13.1	52.0	14.1	12.8	14.7	20.5	62.1
153.6	426.8	82.1	78.6	79.9	130.1	370.7
168.4	698.1	159.2	200.9	159.7	163.3	683.1
335.1	1,176.9	255.4	292.3	254.3	313.9	1,115.9
$ 647.3	$2,314.2	$ 471.2	$ 509.2	$ 479.0	$ 559.1	$2,018.5
$ 19.4	$ 156.3	$ 52.2	$ 37.3	$ 47.4	$ 39.4	$ 176.3
4.5	17.8	3.8	4.7	5.2	2.7	16.4
(1.8)	(6.0)	(1.4)	(4.7)	(1.7)	(1.5)	(9.3)
8.4	14.2	1.8	1.1	1.8	5.2	9.9
(5.2)	(3.8)	1.9	6.2	.3	(2.2)	6.2
1.4	4.4	2.3	2.6	.4	1.5	6.8
$ 25.3	$ 178.5	$ 58.3	$ 44.6	$ 53.0	$ 43.6	$ 199.5
$ 11.9	$ 99.6	$ 28.9	$ 22.5	$ 26.9	$ 23.2	$ 101.5
4.3	12.6	—	—	1.1	1.4	2.5
(1.0)	(3.1)	(.7)	(2.5)	(.7)	(.8)	(4.7)
4.8	8.1	.9	.7	1.2	3.2	6.0
(2.4)	(1.5)	.9	2.9	.1	(.9)	3.0
1.4	3.5	1.1	1.1	.6	1.5	4.3
(3.9)	(14.6)	(2.3)	(2.4)	(2.6)	(2.7)	(10.0)
$ 13.7	$ 101.1	$ 27.7	$ 21.2	$ 26.0	$ 23.4	$ 98.3
$ .49	$ 4.24	$ 1.19	$ .90	$ 1.10	$ 1.00	$ 4.19
$138.25		$ 95.25	$103.00	$115.50	$113.75	
110.00		85.25	91.00	94.25	97.50	
1.375	$ 5.50	1.375	1.375	1.375	1.375	$ 5.50
42.50		51.875	49.00	51.00	48.00	
36.125		48.25	46.25	46.25	43.00	
—	4.30	2.15	—	2.15	—	4.30
31.125		21.875	23.25	26.375	26.00	
24.50		18.875	20.375	20.50	21.125	
.50	1.95	.40	.40	.45	.45	1.70

Management

Beneficial Corporation

Officers

Finn M. W. Caspersen	Chairman of the Board and Chief Executive Officer
George R. Evans	Member of the Office of the President and Vice Chairman of the Board of Directors
Robert A. Tucker	Member of the Office of the President, First Vice President and Chief Financial Officer
Charles W. Bower	Senior Vice President and Treasurer
William A. Gross	Senior Vice President
Kostas Gussis	Senior Vice President
Edgar D. Baumgartner	Vice President and Tax Counsel
Kenneth J. Kircher	Vice President and Secretary
Russell W. Willey	Vice President and Controller
Glenn E. Paton	Vice President and Assistant Secretary
John R. Doran	Vice President and Assistant Treasurer
James H. Gilliam, Jr.	Vice President
Andrew C. Halvorsen	Assistant to the Chairman

Beneficial Management Corporation

Executive Committee

Richard A. Wagner	President and Chief Executive Officer, Chairman of the Executive Committee
Finn M. W. Caspersen	
George R. Evans	Chairman of the Board
Gerald L. Holm	Executive Vice President
R. Donald Quackenbush	Executive Vice President
Robert A. Tucker	
Gordon L. Wadmond	Executive Vice President

Executive Vice President

David J. Farris	Operating

Senior Vice Presidents

Richard H. Bate	Counsel
John M. Farrell	Community Affairs
Robert P. Freeman	Personnel
Robert E. Gaegler	Insurance
Robert M. Grohol	Operating
Charles E. Hance	Litigation Counsel
J. Edward Kerwan	Data Processing
Robert Mallock	Industry Relations
Clifford W. Snyder	Advertising & Press Relations
Joseph A. Stubits	Operating
Robert E. Styles	Operating
David B. Ward	Government Relations
William G. Weiss	Operating

Beneficial Insurance Group

R. Donald Quackenbush	Chairman of the Board of Directors
Robert E. Gaegler	President
Edward A. Dunbar	Managing Director, Foreign Companies
James T. Kearns	Executive Vice President
Anthony F. Mita	Senior Vice President
Albert G. Morhart, Jr.	Senior Vice President
William M. Campbell	Senior Vice President
William G. Jarman	Senior Vice President
Donald K. Smith	Senior Vice President

First Texas Financial Corporation

Roger J. Keane	Chairman and Chief Executive Officer
J. Michael Cornwall	President and Chief Operating Officer

Merchandising Division

Western Auto Supply Company

John T. Lundegard	Chairman of the Board and Chief Executive Officer
Robert W. McFadden	Executive Vice President and Chief Operating Officer

Spiegel, Inc.

Henry A. Johnson	Chairman of the Board and Chief Executive Officer

Classes of Stock	Transfer Agents	Registrars
Common	Irving Trust Company, N.Y.	Chemical Bank, N.Y.
	Wilmington Trust Company Wilmington, Del.	Farmers Bank of the State of Delaware Wilmington, Del.
	The First National Bank of Chicago	Continental Illinois National Bank and Trust Company of Chicago
5% Cumulative Preferred	Irving Trust Company, N.Y.	Manufacturers Hanover Trust Company, N.Y.
	Wilmington Trust Company Wilmington, Del.	Farmers Bank of the State of Delaware Wilmington, Del.
$5.50 Dividend Cumulative Convertible Preferred	Morgan Guaranty Trust Company of New York	Citibank, N.A., N.Y.
	Wilmington Trust Company Wilmington, Del.	Farmers Bank of the State of Delaware Wilmington, Del.
$4.50 Dividend Cumulative Preferred	Bradford Trust Company, N.Y.	The Chase Manhattan Bank, N.A., N.Y.
	Wilmington Trust Company Wilmington, Del.	Farmers Bank of the State of Delaware Wilmington, Del.
$4.30 Dividend Cumulative Preferred	Manufacturers Hanover Trust Company, N.Y.	The Chase Manhattan Bank, N.A., N.Y.
	The First National Bank of Chicago	Continental Illinois National Bank and Trust Company of Chicago
9.25% Redeemable Preferred	Wilmington Trust Company Wilmington, Del.	Wilmington Trust Company Wilmington, Del.

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Beneficial Corporation
Wilmington, Delaware 19899